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Spring Volume II

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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TABLE OF CONTENTS

Volume I

Certificate of Incorporation of National Association of Insurance Commissioners—
A Nonstock Corporation i

Bylaws of the National Association of Insurance Commissioners v

NAIC Policy Statement on Open Meetings xv

NAIC Committee Structure xvii

List of Appointed, Renamed, and Disbanded Committee Groups xviii

NAIC Members by Zones xix

NAIC Executive (EX) Committee xx

NAIC Committee, Subcommittee, and Task Force Membership xxi

NAIC Members by State cviii

NAIC Member Tenure List cix

NAIC Meeting Record clxii

Model Law Listing clxxi

OPENING SESSION 1-1

SYNOPSIS 2-1

EXECUTIVE (EX) COMMITTEE AND PLENARY 3-1

EXECUTIVE (EX) COMMITTEE 4-1
Climate and Resiliency (EX) Task Force 4-17
Government Relations (EX) Leadership Council 4-22
Risk-Based Capital Model Governance (EX) Task Force 4-23

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE 5-1
Life Actuarial (A) Task Force 5-5

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE 6-1
Health Actuarial (B) Task Force 6-53
Regulatory Framework (B) Task Force 6-115
Senior Issues (B) Task Force 6-137

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PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE 7-1
Casualty Actuarial and Statistical (C) Task Force 7-55
Homeowners Market Data Call (C) Task Force 7-118
Surplus Lines (C) Task Force 7-119

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE 8-1
Antifraud (D) Task Force 8-27
Producer Licensing (D) Task Force 8-31

Volume II

FINANCIAL CONDITION (E) COMMITTEE 9-1
Accounting Practices and Procedures (E) Task Force 9-9
Capital Adequacy (E) Task Force 9-597
Examination Oversight (E) Task Force 9-899
Financial Stability (E) Task Force 9-901
Receivership and Insolvency (E) Task Force 9-907
Reinsurance (E) Task Force 9-911
Risk Retention Group (E) Task Force 9-921
Valuation of Securities (E) Task Force 9-923

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE 10-1

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE 11-1

INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE 12-1
Third-Party Data and Models (H) Task Force 12-23

NAIC/CONSUMER LIAISON COMMITTEE 13-1

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FINANCIAL CONDITION (E) COMMITTEE

Financial Condition (E) Committee March 26, 2025, Minutes 9-2
Risk-Focused Surveillance (E) Working Group Feb. 26, 2025, Minutes (Attachment One)..... 9-6

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Financial Condition (E) Committee
Indianapolis, Indiana
March 26, 2025

The Financial Condition (E) Committee met in Indianapolis, IN, March 26, 2025. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Justin Zimmerman, Co-Vice Chair (NJ); Mark Fowler (AL); Michael Conway (CO); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen and Carrie Mears (IA); Holly W. Lambert (IN); Vicki Schmidt (KS); Michael T. Caljouw (MA); Mike Chaney represented by Chad Bridges (MS); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Cassie Brown represented by Jamie Walker (TX); and Scott A. White (VA). Also participating were: Philip Barlow (DC); and Fred Andersen (MN).

1. Adopted its 2024 Fall National Meeting Minutes

Commissioner Ommen made a motion, seconded by Commissioner Fowler, to adopt its Nov. 19, 2024, minutes (*see NAIC Proceedings – Fall 2024, Financial Condition (E) Committee*). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Houdek stated that the Committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). He reminded Committee members that after the adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2025 Spring National Meetings as part of the Financial Condition (E) Committee's technical changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately.

With respect to the task force and working group reports, Commissioner Houdek asked the Committee: 1) whether there are any items that should be discussed further; and 2) whether there are other issues not up for adoption that are currently being considered by task forces or working groups reporting to the Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met March 23, Feb. 19, and Jan. 21 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met March 23 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.

Director French made a motion, seconded by Kasinow, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force, Capital Adequacy (E) Task Force, Financial Stability (E) Task Force, Receivership and Insolvency (E) Task Force, Reinsurance (E) Task Force, Valuation of Securities (E) Task Force, and Risk-Focused Surveillance (E) Working Group (Attachment One).

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3. Received a Report on Privately Rated Securities Missing Rational Reports

Mears noted that the Securities Valuation Office (SVO) reported to the Valuation of Securities (E) Task Force the status of the private letter rating (PLR) report filings for 2024. Since Jan. 1, 2024, all PLR securities, other than waved submissions, have required a private rating rational report to be filed with the SVO to be eligible for the filing exemption process. This was the first year that the SVO systems were sufficiently enhanced to make the filing exemption classification changes. The SVO reported at the 2024 NAIC Fall National Meeting that it had identified 1,636 privately rated securities missing a required rationale report. At that time, the Task Force decided to defer any action and, instead, look at the reasoning behind the missing reports to ensure that the data was complete, and regulators met with members of the industry to work through the process. By March 5, 2025, when the policy to remove securities with missing rating rational reports was applied, the number had decreased to 346 securities. These securities can be reinstated if the insurer submits the missing rational report for 2024 or provides one for 2025, as they are needed each year. The SVO also reported that private rating volume has continued to increase, with 112% more filings in 2024 (8,229) than in 2023 (3,879). Mears noted that the SVO director reported that this increase is straining NAIC resources with a carryover ratio of 13% and explained that a carryover ratio above 10% indicates that there is an analytical resource constraint. The Task Force will continue to look into this.

4. Received an Update on the Draft Reinsurance Asset Adequacy Actuarial Guideline

Andersen provided an update on the development of an actuarial guideline by the Life Actuarial (A) Task Force. The guideline is intended to address reinsurance activity that may lead to a decline in transparency regarding the amount and types of assets supporting the reserves of ceded business. There have been cases where, due to reinsurance, the total reserves supporting business—comprising those held by both the ceding company and the assuming company—are less than the original reserves held by the direct writing company. It is highly likely that, in the vast majority of cases, the reserve decrease would be explainable with reasonable assumptions on factors such as asset returns, mortality, and policyholder behavior. But it is also possible that in some cases, the reserve decrease may be based upon questionable assumptions in these areas. The guideline would provide this information to state regulators regarding life and annuity business for U.S. policyholders.

The Life Actuarial (A) Task Force has been working to develop this proposed guideline for over a year following a referral from members of the Reinsurance (E) Task Force. Goals were developed that seemed to have widespread consensus, and so the guideline would provide U.S. state regulators with what is needed to review the reserves and solvency of U.S. life and annuity companies. It would avoid covered agreement issues, and it would prevent work by ceding companies where there was immaterial risk. A key decision to make the 2025 guideline disclosure only was made by the Life Actuarial (A) Task Force at the 2024 Fall National Meeting. This means that regardless of the results of assets adequacy testing, there are no specifics that additional reserves must be posted. However, a company may view its results and decide to post additional reserves, and domestic regulators may come to the same conclusion. Additionally, depending upon the results of the first year, public discussions could be reopened to determine appropriate next steps. It is expected that even with disclosure only, it will assist with transparency and consistency regarding the ceding amount and assumptions supporting reserve adequacy.

It is important to note that the guidelines being developed are similar in substance and structure to the recently developed *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) and *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). While those resulted in quite a bit of work, there is widespread satisfaction that those have assisted regulators in understanding reserve adequacy following the transaction and helpful dialogue between insurers and regulators.

In terms of a timeline, the last version was recently exposed for a public comment period ending April 4. After this exposure period, there will be two more meetings, with potential adoption in late May or early June by the Task

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Force and possible adoption by the Life Insurance and Annuities (A) Committee in early summer and the Executive (EX) Committee and Plenary at the 2025 Summer National Meeting with first reports provided in April 2026.

Andersen noted that an estimate of how many treaties will eventually fall within the scope of this cash flow analysis requirement will be around 100. Another issue is aggregation, which would allow a combined analysis when a ceding company has multiple treaties with one assessment. It is also decided that the higher the risk, the more analysis will be expected, while the lower the risks, the less analysis will be appropriate. Another decision was that for the year-end 2025, only disclosures will be added as a new requirement. The alternative would be to have the guideline specify that unfavorable cash flow testing would require the insurer to hold additional reserves. The guideline adopted for the year-end 2025 will not include this requirement. However, the disclosure-only requirement does not impact on a state's authority to collaborate with its company to require additional reserves. Updated documents were exposed at the Fall National Meeting until the middle of January, and discussion is expected around the end of January.

5. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Commissioner Houdek noted that the last agenda item is directly related to work on the Investment Framework and, therefore, provided a general update on that work. In line with one of the key action items of the framework, the Committee adopted a request for proposal (RFP) last year to hire a consultant to develop a due diligence framework for oversight of ratings provided by credit rating providers (CRPs). It is the NAIC's intention to announce the hiring of that consultant, and for the work to begin on developing the CRP due diligence framework under the direction of the Valuation of Securities (E) Task Force. Additionally, the NAIC intends to announce proposed changes to certain aspects of the subcommittee structure and a change in some of the roles of NAIC staff in assisting regulators. The goal is to have an update on those proposed changes by the Summer National Meeting. For insight into these planned changes, individuals should look at the Investment Framework Workplan that was exposed last year, specifically action item no. 5. Finally, the NAIC formed the Risk-Based Capital Model Governance (EX) Task Force. Although this is a separate Executive Committee task force, the work will align with the initiatives of the Investment Framework, as stated in the memo to interested parties from February, as well as the Investment Framework Workplan.

Barlow noted that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group had recently met and heard an update from the American Academy of Actuaries (Academy) on its work on collateralized loan obligations (CLOs) and, more generally, asset-backed securities (ABS). The Academy is currently trying to use the C1 bond factor model, which was developed by Moody's for the American Council of Life Insurers (ACLI), and it is currently collaborating with both parties to obtain access to the model. The Academy wants to use the model for collateral modeling and scenario compression. It is also working on CLO cash flow modeling, and it still needs to turn those into risk-based capital (RBC) factors. The Academy is also looking at diversification and concentration.

Barlow said that he stressed to the Academy that the Working Group wants the work done as quickly as possible but also done correctly. He added that if there is anything holding the work up, to let the Working Group know, and it would assist the Academy. Barlow also noted that NAIC staff had put together an analysis of the reporting and RBC of residual tranches, and they plan to have a regulator-only meeting to discuss the result of the analysis, which includes specific company results. Finally, work has begun on the next project, which deals with bond fund treatment and where there are differences. As all the work develops, they are also thinking about applying the methodology of similar types of assets.

Commissioner Houdek asked about the interaction between the NAIC Structured Securities Group (SSG) and the coordination with the Academy. Barlow noted that the Academy and Eric Kolchinsky (NAIC) are working together to ensure that the NAIC's work can be used by the Academy. The Academy is focused on using attributes that can

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be used for an RBC charge, such as ratings along with other information. If that cannot be done, other information will be used.

Having no further business, the Financial Condition (E) Committee adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025_1Spring/032625 E Minutes.docx

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Risk-Focused Surveillance (E) Working Group
Virtual Meeting
February 26, 2025

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met Feb. 26, 2025. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Laura Clements and Michelle Lo (CA); William Arfanis and Jack Broccoli (CT); Carly Wagoner (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Dmitriy Valekha (MD); Kristin Hynes (MI); John Rehagen and Shannon Schmoeger (MO); Monique D. Smith (NC); Tadd Wegner (NE); Paul Lupo (NJ); Mark McLeod (NY); Dwight Radel and Tracy Snow (OH); Jamille Jaffurs (OK); Diana Sherman (PA); Ted Hurley and John Tudino (RI); Amy Garcia (TX); Cambria Shore (UT); Jennifer Blizzard and Greg Chew (VA); Karen Ducharme (VT); and Tarik Subbagh (WA).

1. Finalized Contractor Oversight Guidance

Malm stated that the Working Group received a referral in 2024 from the Financial Regulation Standards and Accreditation (F) Committee on state oversight of contracted resources. While state insurance departments have utilized contract resources to assist in solvency monitoring efforts for many years, the use of contractors in financial analysis work has become more common in recent years due to staffing challenges.

The referral states that the current accreditation guidelines and expectations for a state in utilizing contract resources in financial analysis are limited, which has raised some questions during reviews. Therefore, various questions and considerations were referred to the Working Group for consideration, including issues related to the oversight of contractors in both financial analysis and examination work.

After receiving the referral, the Working Group discussed the issues and asked NAIC staff to develop proposed revisions to existing handbook guidance and the accreditation review team guidelines to address the questions raised. The proposed revisions were then exposed for a 45-day public comment period that ended Nov. 25, 2024.

During the exposure period, comments were received from a joint group of interested parties and the Georgia Office of Commissioner of Insurance and Safety Fire (OCI). The Working Group met Feb. 12 in regulator-to-regulator session for technical discussions with NAIC staff on the comments received. As a result of those discussions, NAIC staff were asked to prepare an updated draft of guidance incorporating comments received during the exposure period.

Malm asked if the joint group of interested parties would like to speak to their comments or the updated draft of the guidance. Tom Finnell (America's Health Insurance Plans—AHIP) summarized the interested party comments, which focused on guardrails to address potential conflicts of interest, confidentiality concerns, and data protection issues when contractors are utilized in financial analysis and examination work. Finnell stated that the updated draft of the guidance effectively incorporated the interested party recommendations, with a couple of minor exceptions. Finnell then proposed language edits to indicate that contractors should not be able to use information obtained through financial analysis and examination engagements for any other purpose. State insurance regulators expressed their agreement with these proposed revisions.

Bruce Jenson (NAIC) provided an overview of other edits made to the updated guidance, which included the recommendation from Georgia, as well as many of the recommendations proposed by the joint group of interested parties on conflict of interest, confidentiality, and data security. Jenson stated that the proposed

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guidance for the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook* were drafted together to ensure consistent expectations for both functions.

Malm asked for a motion to refer the updated guidance, including the changes proposed by Finnell during the meeting, to the relevant NAIC groups for consideration of adoption. Smith made a motion, seconded by Subbagh, to refer: 1) the proposed Accreditation Review Team Guideline revisions to the Financial Regulation Standards and Accreditation (F) Committee; 2) the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group; and 3) the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

2. Discussed a Referral on Reciprocal Exchanges

Malm stated that the Working Group received a referral from the Chief Financial Regulator Forum regarding reciprocal exchanges. The Chief Financial Regulator Forum meets at each NAIC national meeting in regulator-to-regulator session in accordance with the NAIC Policy Statement on Open Meetings, which does not apply to roundtables and other similar sessions.

During the forum meeting at the 2024 Fall National Meeting, the chief financial regulators discussed the increase in the number of reciprocal exchanges being formed in recent years. During this discussion, some regulators highlighted challenges in assessing the fairness and reasonableness of attorney-in-fact fees being charged to the newly formed reciprocals, as well as other challenges in monitoring the solvency of reciprocal exchanges. The referral notes that it is common for attorney-in-fact fees to be based on a percentage of premium volume, which has the potential to create conflicts of interest if that same attorney-in-fact oversees underwriting decisions for the reciprocal.

Malm stated that while this particular concern is not necessarily unique to reciprocal exchanges, it does relate to recent Working Group efforts to update regulatory guidance related to affiliated services. As such, Malm proposed the formation of a drafting group to study these issues, including the applicability of the *Insurance Holding Company System Regulatory Act* (#440) to attorneys-in-fact for reciprocal exchanges and to develop additional guidance for the full Working Group to consider in this area.

Garcia expressed support for the formation of a drafting group, as did Lupo and Andersen. Jenson asked whether the drafting group should focus solely on reciprocal exchange issues or address the broader issues of all service agreements that include fees based on premium volume and include some level of management or oversight of underwriting decision-making. Malm encouraged the drafting group to address the referral from a broader perspective and encouraged interested members to contact NAIC staff regarding their interest in joining the drafting group.

3. Received an Update on the 2025 Peer Review Program Sessions

Nickelson stated that the Working Group held a financial analysis peer review session in January, which involved eight states reviewing completed financial analysis files. One of the eight states had to participate remotely due to weather-related travel challenges, but the peer reviewers worked around that challenge and still had a successful session. Based on the discussions held, several new sound practices were identified and added to the existing sound practices documents, which have been updated and distributed to states before the upcoming annual analysis review period.

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Nickelson stated that the next peer review session planned for 2025 is a small company exam session to be held in May, followed by a special Own Risk and Solvency Assessment (ORSA) examination session to be scheduled in August. Finally, the Working Group plans to hold another financial analysis session in October to complete the peer review offerings for 2025.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025_1Spring/RFSWG/Surveillance WG 2-26-25 Minutes.docx

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ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Accounting Practices and Procedures (E) Task Force March 25, 2025, Minutes 9-12
Statutory Accounting Principles (E) Working Group March 24, 2025, Minutes (Attachment One) 9-18
Statutory Accounting Principles (E) Working Group Feb. 25, 2025, Minutes (Attachment One-A) 9-34
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-16; Repack and Derivative Investments (Attachment One-A1) 9-42
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-22; *Accounting Standards Update (ASU) 2024-01, Scope Application of Profits Interest and Similar Awards* (Attachment One-A2) 9-55
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-25; *Statement of Statutory Accounting Principle (SSAP) No. 16—Electronic Data Processing Equipment and Software* Clarifications (Attachment One-A3) 9-59
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-14; New Market Tax Credits (Attachment One-A4) 9-61
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-10; *SSAP No. 56—Book Value Separate Accounts* (Attachment One-A5) 9-134
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-23; Derivative Premium Clarifications (Attachment One-A6) 9-175
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-27; Issue Papers in Statutory Hierarchy (Attachment One-A7) 9-188
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-28; Holders of Capital Notes (Attachment One-A8) 9-198
Comment Letters Received for Items Planned for Discussion on Feb. 25, 2025 (Attachment One-A9) 9-211
Statutory Accounting Principles (E) Working Group Dec. 17, 2024, Minutes (Attachment One-B) 9-251
Comment Letters Received for Items Exposed for Discussion at the 2024 Fall National Meeting (Attachment One-B1) 9-259
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-26EP; NAIC *Accounting Practices and Procedures Manual* (AP&P Manual) Editorial and Maintenance Update (Attachment One-B2) 9-331
Comment Letters Received for Items Exposed for Discussion at the 2025 Spring National Meeting (Attachment One-C) 9-332
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2023-28; Collateral Loan Reporting (Attachment One-D) 9-378
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-20; Restricted Asset Disclosure Clarification (Attachment One-E) 9-389
Interpretation of the Statutory Accounting Principles (E) Working Group; *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plan* (Attachment One-F) 9-416
Interpretation of the Emerging Accounting Issues (E) Working Group and Statutory Accounting Principles (E) Working Group; *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* (Attachment One-G) 9-423
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-24; Medicare Part D – Prescription Payment Program (Attachment One-H) 9-428
Memorandum Dated Jan. 7, 2024, to Dale Bruggeman (OH), Chair, Statutory Accounting Principles (E) Working Group, from Greg Chew (VA), Vice Chair, Financial Analysis (E) Working Group, Regarding Investment Concentration in Life Reinsurance Transactions (Attachment One-I) 9-431

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Memorandum dated Feb. 21, 2025, to Dale Bruggeman (OH), Chair, Statutory Accounting Principles (E) Working Group, and Kevin Clark (IA), Vice Chair, Statutory Accounting Principles (E) Working Group, from Philip Barlow (DC), Chair, Life Risk-Based Capital (E) Working Group, and Ben Slutsker (MN), Vice Chair, Life Risk-Based Capital (E) Working Group, Regarding Proposal 2025-05-L—Asset Concentration L010 Referral (Attachment One-J) 9-432
Review of U.S. Generally Accepted Accounting Principles (GAAP) Exposures for Statutory Accounting (Attachment One-K) 9-439
Blanks (E) Working Group March 6, 2025, Minutes (Attachment Two) 9-451
Blanks (E) Working Group Dec. 3, 2024, Minutes (Attachment Two-A) 9-457
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented in December 2024 (Attachment Two-A1) 9-458
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-13BWG Modified; Effective Annual 2025; Update the Annual Investment Schedules for Editorial Items to the Bond Project: Investment Sch. General Instructions, Sch. D Verification, Sch. D Part 1A, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 1 & 2 (Attachment Two-B) 9-459
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-14BWG Modified; Effective Annual 2025; Update the 2025 annual (2026 quarterly) Investment Schedules Line Category for Bonds Issued by Funds Representing Operating Entities: Annual – Investment Schedule General Instructions, Summary Investment Sch., Summary By Country, Sch. D Part 1A, Sch. D Part 1 Section 1, Sch. D Part 3, 4, & 5, Sch. DA Part 1, Sch. DL Part 1 & 2, and Sch. E Part 2 / Quarterly – Investment Schedule General Instructions, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 2 (Attachment Two-C) 9-526
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-15BWG; Effective Annual 2025; Remove the Affordable Care Act (ACA) Disclosure on the Transitional Reinsurance Program and the Risk Corridors Program from the Supplemental Health Care Exhibit (Attachment Two-D) 9-547
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-16BWG; Effective First Quarter 2026; Remove the Quarterly Investment Interrogatory Line 13 for Reporting Mortgages and Real Estate in Short-Term Investments (Attachment Two-E) 9-550
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-17BWG; Effective Annual 2025; Add a Line to the Market Conduct Annual Statement (MCAS) Premium Exhibit for Pet Insurance (Attachment Two-F) 9-552
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-18BWG; Effective Annual 2025; Add a Footnote to the Supplemental Health Care Exhibit (SHCE) Part 2 to Report the Amount of Premium Deficiency Reserves that are Included in Different Lines of Part 2 (Attachment Two-G) 9-554
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-19BWG Modified; Effective Quarterly 2026/Annual 2026; Update Schedule BA Line Categories and Instructions for the Expansion of Collateral Loans; Add Two Electronic-Only Columns on Schedule BA, Part 1, for Reporting Fair Value of Collateral Backing and the Percentage of the Collateral. Update the Asset Valuation Reserve Instructions and Blank for the Added Collateral Loan Lines (Attachment Two-H) 9-558
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-20BWG Modified; Effective Annual 2025; Add Electronic-Only Contact Information Field to the Annual and Quarterly Jurat Page for the Guaranty Association Contact (Attachment Two-I) 9-572
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-21BWG; Effective Annual 2025/First Quarter 2026; Update Schedule D, Part 4 and Part 5, Instructions to Add Clarifying Instructions on What Should Be Included on the Investment Schedule (Attachment Two-J) 9-575

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Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-22BWG; Effective Annual 2025/First Quarter 2026; Update Schedule BA Definitions for Surplus Debentures and Capital Notes to Add Clarification on What Should be Reported in These Categories (Attachment Two-K) 9-579
Memorandum Dated Dec. 2, 2024, to Debbie Doggett (MO), Chair, Blanks (E) Working Group, from Dale Bruggeman (OH), Chair, Statutory Accounting Principles (E) Working Group, Regarding Inactive Lloyds Syndicates; Memorandum Dated Jan. 8, 2025, to Doggett, Chair, Blanks (E) Working Group, and Steve Drutz (WA), Vice Chair, Blanks (E) Working Group, from Bruggeman, Chair, Statutory Accounting Principles (E) Working Group, Regarding Year-End 2024 Impacts to the Annual Statement Notes and Instructions (Attachment Two-L) 9-582
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the March 6, 2025, Meeting (Attachment Two-M) 9-586

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Draft: 3/31/25

Accounting Practices and Procedures (E) Task Force
Indianapolis, Indiana
March 25, 2025

The Accounting Practices and Procedures (E) Task Force met in Indianapolis, IN, March 25, 2025. The following Task Force members participated: Cassie Brown, Chair, represented by Jamie Walker (TX); Angela L. Nelson, Vice Chair, represented by Shannon Schmoeger (MO); Lori K. Wing-Heier represented by David Phifer (AK); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by N. Kevin Brown (DC); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Carolyn Morgan (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Jeff Gaither (KY); Michael T. Caljouw represented by Jim McCarthy (MA); Robert L. Carey represented by Vanessa Sullivan (ME); Anita G. Fox represented by Kristin Hynes (MI); Grace Arnold represented by Kathleen Orth (MN); Mike Chaney represented by Chad Bridges (MS); Mike Causey represented by Jacqueline Obusek (NC): Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Steve Ross (NV); Adrienne A. Harris represented by Bob Kasinow (NY): Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Ryan Rowe (OK); Andrew R. Stolfi represented by Kirsten Anderson (OR); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise represented by Ryan Basnett (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Trey Hancock (TN); Scott A. White represented by Doug Stolte and Jennifer Blizzard (VA); Sandy Bigglestone represented by Dan P56etterson and Karen Ducharme (VT); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI). Also participating was Roy Eft (IN).

1. Adopted its 2024 Fall National Meeting Minutes

Drutz made a motion, seconded by Obusek, to adopt the Task Force's Nov. 18, 2024, minutes (*see NAIC Proceedings Fall 2024, Accounting Practices and Procedures (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Statutory Accounting Principles (E) Working Group

Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met March 24 (Attachment One). During this meeting, the Working Group took the following action:

A. Adopted its 2024 Fall National Meeting minutes.

B. Adopted its Dec. 17, 2024, minutes. During this meeting, the Working Group took the following action:

i. Adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* to clarify disclosure reporting by category and subcategory as reported in Schedule D, Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset-Backed Securities). (Ref #2024-26EP)

ii. Exposed the following statutory accounting principle (SAP) clarifications to statutory accounting guidance for a public comment period that ended Jan. 31, 2025:

a. Revisions to *SSAP No. 41—Surplus Notes* to clarify capital notes references and guidance. A corresponding blanks proposal is concurrently exposed. (Ref #2024-28)

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b. Revisions to *SSAP No. 56: Book Value Separate Accounts* to detail the measurement method and process to transfer assets. Revisions from prior exposure are limited to paragraph 18b and paragraph 22. (Ref #2024-10)

c. Revisions to the annual statement instructions to clarify that held debt securities that are sold to a special purpose vehicle (SPV) and then reacquired reflecting additional (derivative or other) components shall be reported as a disposal and reacquisition in the investment schedules. (Ref #2024-16)

d. Revisions to the preamble of the *Accounting Practices and Procedures Manual* (AP&P Manual) to classify issue papers in Level 5 of the statutory hierarchy. (Ref #2024-27)

iii. Deferred the following SAP concepts and clarifications to statutory accounting guidance for further consideration at a future interim or national meeting:

a. Proposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* with direction to schedule a joint call with the Life Actuarial (A) Task Force for discussion. (Ref #2024-06)

b. Proposed new SAP concept for asset liability management (ALM) derivatives, with direction to continue discussions at the 2025 Spring National Meeting. (Ref #2024-15)

c. Proposed revisions to *Appendix 791 (A-791), Life and Health Reinsurance Agreements*, with direction to schedule a joint call with the Life Actuarial (A) Task Force for discussion. (Ref #2024-05)

C. Adopted its Feb. 25, 2025, minutes. During this meeting, the Working Group took the following action:

i. Adopted the following clarifications to statutory accounting guidance:

a. Revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify references to the U.S. generally accepted accounting principles (GAAP) Accounting Standards Codification (ASC). (Ref #2024-25)

b. Revisions to *SSAP No. 56—Separate Accounts* to clarify measurement method and prescribe guidance for transfers to/from the general and separate account. (Ref #2024-10)

c. Revisions to SSAP No. 41 to clarify capital notes references and guidance. (Ref #2024-28)

d. Revisions to *SSAP No. 86—Derivatives* to clarify terms used for derivative financing premium and to recommend revisions to the annual statement instructions. The exposed revisions to clarify the calculation of realized losses in relation to derivative premium costs were moved to agenda item #2024-15: ALM Derivatives. (Ref #2024-23)

e. Revisions to *SSAP No. 104—Share-Based Payments* to adopt with modification *Accounting Standards Update (ASU) 2024-01, Scope Application of Profits Interest and Similar Awards*. (Ref #2024-22)

f. Revisions to the preamble of the AP&P Manual to classify issue papers as Level 5 in the statutory hierarchy. (Ref #2024-27)

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g. Adopted *Issue Paper No. 170—Tax Credits Project* to document the historical discussions in the development of *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits.* (Ref #2022-14)

h. Recommended revisions to annual statement instructions to clarify that held debt securities, which are sold to an SPV and then reacquired reflecting the addition of derivative or other components, shall be reported as a disposal and reacquisition in the investment schedules. (Ref #2024-16)

ii. Exposed revisions to tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plan* to provide guidance for the Medicare Part D program prescription payment plan and edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. (Ref #2024-24)

Bruggeman stated that the Working Group on March 24, adopted the following clarifications to statutory accounting guidance:

A. *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*: Adopted revisions to require restricted asset disclosure for modified coinsurance (modco) and funds withheld assets reported within a ceding company's financial statements. Recommended note illustrations and general interrogatory revisions to improve the restricted asset disclosure. (Ref #2024-20)

B. *INT 24-02: Medicare Part D Prescription Payment Plans* and *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*: Adopted INT 24-02 and edits to INT 05-05 to provide accounting and reporting for the Medicare Part D prescription payment plan. (Ref #2024-24)

C. *Annual Statement Blanks*: Adopted reporting recommendations to provide granular reporting lines on Schedule BA: Other Invested Assets for Collateral Loans. A corresponding blanks proposal is concurrently exposed. (Ref #2023-28)

Bruggeman stated that the Working Group exposed the following SAP concepts and clarifications to statutory accounting guidance for a public comment period ending June 6, except for agenda items 2024-07, 2025-04, 2025-05, 2025-06, 2025-07, and 2025-08, which are exposed for a public comment period ending May 2:

A. SSAP No. 1 and *Annual Statement Blanks*: Exposed revisions expand the restricted asset reporting to capture information on modco and funds withheld assets that are related to the reinsurer and to require the disclosure in all quarterly and annual financial statements. Received related referral from the Financial Analysis (E) Working Group. (Ref #2025-05)

B. *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve*: Exposed proposed guidance to define interest maintenance reserve (IMR). (Ref #2025-03)

C. SSAP No. 7: Exposed a memorandum that recommends removing hypothetical IMR. (Ref #2023-14)

D. *SSAP No. 15—Debt and Holding Company Obligations*: Exposed revisions to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments*, for statutory accounting. (Ref #2025-02)

E. *SSAP No. 22—Leases*: Exposed revisions to clarify that sale leasebacks with restrictions on access to the cash proceeds do not qualify for sale leaseback accounting and shall be accounted for by the seller using the financing method. (Ref #2025-01)

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F. *SSAP No. 51—Life Contracts*: Exposed consistency revisions to reflect new VM-22, Statutory Maximum Valuation Rates for Income Annuities, principle-based reserve (PBR) requirements. (Ref #2025-09)

G. S*SAP No. 84—Health Care and Government Insured Plan Receivables*: Exposed revisions add disclosures on the Medicare Part D prescription payment plan amounts. (Ref #2025-08)

H. *Preamble*: Exposed revisions clarify the treatment of issue papers in Level 5 of the statutory hierarchy and update the reference to U.S. Securities and Exchange Commission (SEC) rules and interpretations as authoritative U.S. GAAP for SEC registrants. (Ref #2025-12EP)

I. *Annual Statement Blanks*:

i. Exposed revisions to the life/fraternal annual statement blank remove a general interrogatory on dividends received. (Ref #2025-07)

ii. Exposed revisions to the life/fraternal annual statement blank remove reporting line 8, "Unrated Multi-Class Securities Acquired by Conversion," from the asset valuation reserve (AVR). (Ref #2025-06)

iii. Exposed revisions remove the "capital structure code" reporting column in Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2). (Ref #2025-04)

iv. Exposed revisions to capture information on modco/funds withheld assets remove the initially proposed Schedule F, Part 7 from the proposal and add a Part 8 to Schedule S for the life/fraternal instructions and blank. The Schedule S draft includes aggregated data and is consistent with AVR reporting. (Ref #2024-07)

J. *Appendix D—Nonapplicable GAAP Pronouncements:* The following U.S. GAAP standards were exposed for rejection as they are not applicable to statutory accounting:

i. *ASU 2023-07, Improvements to Reportable Segment Disclosures.* (Ref #2025-10)

ii. *ASU 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03*. (Ref #2025-11)

Bruggeman stated that the Working Group directed NAIC staff on the following items:

A. SSAP No. 86: Directed research and possible guidance for certain non-accounting effective derivatives to defer realized gains and losses. (Ref #2024-15)

B. *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Deferred concept agenda item for investment subsidiaries to allow for consideration of Delaware Statutory Trusts (DSTs) holding residential mortgage loans. (Ref #2024-21)

C. *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Directed development of revisions to clarify guidance for securities lending, repurchase, and reverse repurchase agreements. (Ref #2024-04)

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Bruggeman stated that the Working Group received updates on the following:

A. IMR Ad Hoc Group activities, noting that its discussions have focused on IMR from reinsurance transactions, reinvestment for sold fixed-income instruments where realized gains/losses are taken to IMR, and guidance on excess withdrawals.

B. Received a referral from Life Risk-Based Capital (E) Working Group requesting comments on a proposal from the American Council of Life Insurers (ACLI) seeking to clarify the LR010 instruction that certain Securities Valuation Office (SVO)designated non-bond debt securities can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

C. Notice of a joint meeting with the Life Actuarial (A) Task Force scheduled for April 10.

D. Notice of a Working Group meeting scheduled for May 22.

E. Notice of an electronic version of the AP&P Manual.

F. U.S. GAAP exposures, noting that items will be addressed during the normal maintenance process.

G. International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group activities, including notice of the application paper on climate risk.

Bruggeman made a motion, seconded by Clark, to adopt the report of the Statutory Accounting Principles (E) Working Group (Attachment One). The motion passed unanimously.

3. Adopted the Report of the Blanks (E) Working Group

Eft provided the report of the Blanks (E) Working Group, which met March 6. During this meeting, the Working Group adopted its Dec. 2, 2024, and Nov. 6, 2024, minutes, which included the following action:

A. Adopted its Aug. 7, 2024, minutes.

B. Exposed eight new proposals.

C. Received a Statutory Accounting Principles (E) Working Group memorandum regarding debt securities issued by funds representing operating entities.

D. Adopted its editorial listing.

Eft stated that during its March 6 meeting, the Working Group adopted the following nine proposals:

A. 2024-13BWG Modified – Update annual investment schedules for bond project editorial items.

B. 2024-14BWG Modified – Update the 2025 annual (2026 quarterly) investment schedules line category for "Bonds Issued by Funds Representing Operating Entities."

C. 2024-15BWG – Remove the Affordable Care Act (ACA) disclosure on the transitional reinsurance program and the risk corridors program from the Supplemental Health Care Exhibit (SHCE).

D. 2024-16BWG – Remove the quarterly investment interrogatory line 13 for reporting mortgages and real estate in short-term investments. Re-number all lines below the line being removed.

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E. 2024-17BWG – Add a pet insurance line to the Market Conduct Annual Statement (MCAS) premium exhibit.

F. 2024-18BWG – Add a footnote to SHCE, Part 2, to report the amount of premium deficiency reserves included in the lines of Part 2.

G. 2024-20BWG Modified – Add an electronic-only company contact information field to the annual and quarterly Jurat page for the assessment contact.

H. 2024-21BWG – Update Schedule D, Parts 4 and 5, to add clarifying instructions on what should be included in the investment schedule.

I. 2024-22BWG – Update Schedule BA definitions for surplus debentures and capital notes to add clarification on what should be reported in these categories.

Eft stated that the Working Group re-exposed 2024-19BWG Modified — Update Schedule BA line categories and instructions for the expansion of collateral loans. Add two electronic-only columns to Schedule BA, Part 1, for reporting the fair value of collateral backing and the percentage of the collateral. Update the asset valuation reserve (AVR) instructions and blank for the added collateral loan lines.

Eft stated that the Working Group exposed six new proposals for a public comment period ending April 29. He noted that the Working Group also recently exposed interim items for a public comment period ending April 29.

Eft stated that the Working Group received two Statutory Accounting Principles (E) Working Group memorandums.

A. Inactive Lloyd's Syndicates

B. Year-End 2024 Impacts to the Annual Statement Notes and Instructions

Eft stated that the Working Group adopted its editorial listing.

Drutz made a motion, seconded by Bruggeman, to adopt the report of the Blanks (E) Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/apptf 3-25-25 minutes tpr.docx

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Statutory Accounting Principles (E) Working Group
Indianapolis, Indiana
March 24, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Todrick Burks (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson and Shantell Taylor (LA); Steve Mayhew and Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm (WI). Also participating were Bill Carmello (NY) and Rachel Hemphill (TX).

1. Adopted its Feb. 25, 2025; Dec. 17, 2024; and 2024 Fall National Meeting Minutes

The Working Group met March 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss its Spring National Meeting agenda. No action was taken at the meeting.

The Working Group met Feb. 25, 2025, and took the following action: 1) extended the comment period for the Current Expected Credit Losses (CECL) issue paper to May 2 (Ref #2023-23); 2) adopted proposed annual statement instructions to clarify that held debt securities that are sold to a special purpose vehicle (SPV) and then reacquired reflecting the addition of derivative or other components shall be reported as a disposal and reacquisition in the investment schedules (Ref #2024-16), and communicated support for the adoption of the related proposal (2024-21BWG) exposed by the Blanks (E) Working Group; 3) adopted with modification *Accounting Standards Update (ASU) 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments* (Ref #2024-22); 4) adopted revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. generally accepted accounting principles (GAAP) Accounting Standards Codification (ASC) (Ref #2024-25); 5) adopted *Issue Paper 170—Tax Credits Project* to detail the revisions and discussion for the adopted revisions to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* along with minor edits (Ref #2022-14); 6) adopted exposed revisions to *SSAP No. 56—Separate Accounts*, with an effective date of Jan. 1, 2026, with early adoption permitted (Ref #2024-10); 7) adopted revisions to *SSAP No. 86—Derivatives* related to financing premium (Ref #2024-23); 8) re-exposed the revised *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plan* and the previously exposed minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* for a shortened public comment period ending March 5, and directed NAIC staff to continue with blanks proposals on this topic with the goal of incorporation into the 2025 Annual Statement Instructions (Ref #2024-24); 9) adopted revisions to capture issue papers in Level 5 of the statutory hierarchy (Ref #2024-27); and 10) adopted revisions to *SSAP No. 41—Surplus Notes* (Ref# 2024-28).

On Feb. 18, the Working Group held a joint meeting with the Life Actuarial (A) Task Force in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss reinsurance transactions at certain companies and preparation for future meetings. No action was taken at the meeting.

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During its Dec. 17, 2024, meeting, the Working Group took the following actions: 1) exposed revisions to SSAP No. 56 (Ref #2024-10); 2) discussed the continued development of accounting guidance for the deferral of realized gains and losses for non-accounting effective hedges captured in SSAP No. 86 (Ref #2024-15); 3) adopted exposed editorial changes (Ref #2024-26EP); 4) deferred action to allow for a future discussion at a joint meeting with the Life Actuarial (A) Task Force along with agenda item 2024-06 (Ref #2024-05); 5) deferred for future discussion (Ref #2024-06); 6) exposed proposed revisions to capture issue papers in Level 5 of the statutory hierarchy pursuant to the direction from the 2024 Fall National Meeting (Ref #2024-27); 7) exposed changes to incorporate revisions to SSAP No. 41 and incorporate changes to clarify the reporting categories in the annual statement instructions, including a corresponding blanks proposal for concurrent exposure of the annual statement instructions revisions (Ref #2024-28); 8) exposed clarifications in the investment acquisition and disposal schedules by sponsoring a blanks proposal to ensure that a debt security sold to an SPV and reacquired with derivative components is shown as a disposal and an acquisition in the investment schedules (Ref #2024-16).

Walker made a motion, seconded by Malm, to adopt the Working Group's Feb. 25, 2025 (Attachment One-A); Dec. 17, 2024 (Attachment One-B); and Nov. 17, 2024 (*see NAIC Proceedings – Fall 2024, Accounting Practices and Procedures (E) Task Force, Attachment One*) minutes. The motion passed unanimously.

2. Reviewed Comments on Exposed Items

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

A. Ref #2023-28

Bruggeman directed the Working Group to agenda item *Ref #2023-28: Collateral Loan Reporting*. Julie Gann (NAIC) stated that on Nov. 17, 2024, the Working Group re-exposed the agenda item detailing proposed collateral loan reporting lines for Schedule BA and asset valuation reserve (AVR), allowing concurrent exposure with blanks proposal 2024-19BWG. She stated that comments from the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group will be reviewed collectively. Gann stated that the exposure proposed Schedule BA reporting lines (and corresponding AVR lines) for collateral loans, separated by affiliated/unaffiliated, including mortgage loans, joint ventures, partnerships or limited liability companies (LLCs), residual interests, debt securities, real estate, and other collateral loans. She stated that the Blanks (E) Working Group has exposed revisions to the AVR and Schedule BA, receiving comments mainly about reporting changes, not statutory accounting revisions. She stated that NAIC staff recommend adopting this agenda item and supporting the Blanks exposure, which was revised based on comments received, with a comment deadline of April 29. She stated that the Blanks (E) Working Group plans to meet May 29 to consider adoption, effective Jan. 1, 2026. She stated that the goal is to allow risk-based capital (RBC) factors for granular reporting lines. She stated that a referral was sent to the Capital Adequacy (E) Task Force, which will update on the status and consider adoption. She stated that aggregate data from the 2024 note disclosure is available, but NAIC staff do not support deleting this note as it provides detailed investment information. She stated that NAIC staff's recommendation is to adopt the item, with no statutory accounting revisions, and support the blanks proposal.

Bruggeman stated that comments were incorporated into the March 6 blanks exposure because the exposure period had ended. He stated that although the blanks exposure remains open until the end of April, most comments received were already included and that this ensures that the majority of topics were addressed from the beginning of the incorporation process into the blanks side.

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Andrew Morse (Global Atlantic Financial Group—Global Atlantic), representing interested parties, stated that the interested parties appreciate that regulators considered and incorporated many of their comments into the current proposal and support the proposed changes on collateral and reporting, effective in 2026, similar to the 2024 temporary solution. He stated that they recognize the coordination needed between the Working Group, Blanks (E) Working Group, and Life Risk-Based Capital (E) Working Group and look forward to providing industry comments to help finalize these changes before 2026.

Hudson made a motion, seconded by Hynes, to adopt agenda item 2023-28 (Attachment One-D) with the proposed expansion of Schedule BA/AVR reporting lines for collateral loans, with communicated support to the Blanks (E) Working Group on the adoption of blanks proposal 2024-19BWG, with an effective date of Jan. 1, 2026, with the inclusion of certain modifications suggested by interested parties. The motion passed unanimously.

B. Ref #2024-07

Bruggeman directed the Working Group to agenda item *2024-07: Reporting of Funds Withheld and Modco Assets.* Jake Stultz (NAIC) stated that on Aug. 13, 2024, the Working Group exposed this agenda item. The agenda item proposes new parts for reinsurance Schedule S in life/fraternal and health annual statements and Schedule F in the property/casualty and title annual statements. He stated that this project originated from the work of the Interest Maintenance Reserve (IMR) Ad Hoc Group, which highlighted the lack of clarity regarding assets supporting funds withheld (FWH) and modified coinsurance (modco) arrangements. He stated that the agenda item was first exposed in March 2024 and discussed again at the 2024 Summer National Meeting and that the comment deadline was extended. He stated that this is the first discussion on the agenda item since the 2024 Summer National Meeting. He stated that the original exposure proposed new schedules: Part 8 for life/fraternal and health blanks and Part 7 for property and casualty and title blanks. He stated that three comments were received, recommending limiting disclosures to the life/fraternal blanks, where most modco and FWH assets exist. He stated that the updated draft follows the AVR schedule closely, and the American Property Casualty Insurance Association (APCIA) comments suggested removing Schedule F, Part 7 from property/casualty blanks. He stated that data from 2024 annual reporting showed 93% of modco and FWH assets are on life/fraternal blanks, justifying their removal from property/casualty, health, and title reporting. He stated that United Healthcare requested that reporting be excluded for scenarios where the investment risk is not passed. He stated that the goal is to understand assets supporting FWH and modco arrangements, with better clarity for RBC as a benefit. He stated the current draft includes all life/fraternal blanks modco and funds withheld assets. He stated that the recommendation is to expose the agenda item, including the new Schedule S, Part 8 for the life/fraternal blank, which closely follows the AVR schedule. He stated that minor wording updates were made after a call with the American Council of Life Insurers (ACLI). He stated that the goal is to be adopted for 2025 annual reporting, with no changes to statutory accounting, only reporting changes. The updated draft is consistent with the recommendations from interested parties and more closely aligns with AVR reporting. Stultz stated that while this exposure does not recommend including property and casualty, title, or health blanks, these could be added again in the future if deemed necessary.

Bruggeman stated that if this item is adopted by SAPWG at the next Blanks (E) Working Group meeting, the Statutory Accounting Principles (E) Working Group would do a modification first to make the two items consistent and then proceed with adopting the modified version on the blanks side.

Clark stated that it sounds like the recommendation is to move forward without excluding scenarios where investment risk is not transferred. This means the schedule would not necessarily align with the RBC credit for FWH and modco. He asked whether there should be a subtotal or something similar to tie out to the life RBC

adjustments if that is the route they are taking. He stated that one of the benefits considered was the ability to see the support for the RBC credit, and it seems this would not achieve that without creating a subtotal or something similar that would agree.

Bruggeman stated that those who do not have it will report a zero because there is no FWH or modco information.

Robin Marcotte (NAIC) stated that Clark is correct because this would detail all FWH on the life blank, and the RBC charge is for those that transfer investment risk. She stated that there would be some disconnect, but a large percentage of the life contracts do get the RBC credit.

Bruggeman stated that including a subtotal for transferring interest rate or credit makes sense and would ensure they get what they want from the perspective of all funds withheld and modco. He stated that if this approach is agreed upon, it could be included in the exposure and considered for a quick update vote or discussed in interim communication. Stultz said the staff could do this research.

Hudson asked whether the timing is anticipated to change for the Blanks (E) Working Group to vote on this. Gann stated that it would not change the timeline in that this group will discuss the issue May 22, and the Blanks (E) Working Group will discuss it May 29.

Shannon Jones (ACLI), representing interested parties, stated that interested parties understand the goal is to rely less on company records for RBC and increase financial reporting transparency, and they appreciate that the Working Group has taken their feedback into consideration for the updated exposure.

Jay Muska (APCIA) thanked the Working Group and NAIC staff for the conversations on the non-life side and stated support for removing it from Schedule F.

Clark made a motion, seconded by Walker, to expose agenda item 2024-07, which includes an updated draft of Schedule S, Part 8 for only the life/fraternal blank, with Schedule F, Part 7 removed from the proposal, and does not include a new Schedule S, Part 8, on the health blank. With the motion, NAIC staff were directed to try to incorporate subtotals that would support the life RBC adjustments. The updated draft is closely in line with the recommendations from interested parties. A corresponding Working Group-sponsored blanks proposal was exposed by the Blanks (E) Working Group March 6. The motion passed unanimously.

C. Ref #2024-20

Bruggeman directed the Working Group to agenda item *2024-20: Restricted Asset Clarification.* Gann stated that this item originated due to inconsistencies in how companies report modco and FWH within the restricted asset disclosure (Note 5L). The proposal suggests minor revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* and clarifies the blanks reporting in Note 5L. She stated that it includes information on whether a modco or FWH asset has been pledged and highlights differences between the restricted assets note and the general interrogatory. She stated that the item was exposed with minor revisions to SSAP No. 1, proposed blank changes, and language for a life RBC referral. She stated that interested parties commented on all aspects. She stated that the revisions to SSAP No. 1 are minor, changing "amount" to "book/ adjusted carrying value (BACV)," which NAIC staff support. She stated that this item had not been previously exposed by the Blanks (E) Working Group but is currently exposed with a comment deadline of April 29, with adoption consideration in May. She stated that comments were also provided on the Life Risk-Based Capital (E) Working Group referral. She stated that NAIC staff recommend adopting this agenda item, supporting the blanks

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proposal to be considered May 29. She stated that, upon adoption, NAIC staff suggest sending a referral to the Life Risk-Based Capital (E) Working Group. She stated that the life RBC instructions already state that companies should not take credit for modco and FWH assets when they do not transfer the asset risk and that this proposal expands those instructions to clarify that if a modco or FWH asset is pledged on behalf of the ceding insurer, RBC credit should not be taken. She stated that it would be different if pledged on behalf of the reinsurer. NAIC staff considered interested parties' comments in the proposed instructions and worked with Life Risk-Based Capital (E) Working Group staff on drafting. She stated that the Life Risk-Based Capital (E) Working Group will decide on the actual revisions. She stated that the Working Group received a referral from the Financial Analysis (E) Working Group regarding modco and FWH assets affiliated with the reinsurer, which is not included in the current agenda item but is addressed in a new agenda item proposing quarterly Note 5L disclosures.

Hudson made a motion, seconded by Bartlett, to adopt the exposed revisions to SSAP No. 1, effective Dec. 31, 2025, with minor modifications to replace "amount" with "book/adjusted carrying value (BACV)" in paragraphs 23.b. and 23.c. (Attachment-One-E). The Blanks (E) Working Group exposed a corresponding Working Group-sponsored blanks proposal on March 6, with adoption consideration expected May 29. With the adoption, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group to clarify RBC reduction guidance for modco and FWH reinsurance agreements, including proposed new language in the instructions for "Modco or Funds Withheld Reinsurance Agreements" to clarify that RBC reduction is not permissible if any portion of the modco/FWH asset is pledged, preventing pro-rata reduction interpretations. The motion passed unanimously.

D. Ref #2024-21

Bruggeman directed the Working Group to agenda item *2024-21: Investment Subsidiaries.* Gann stated that this item was introduced at the 2024 Fall National Meeting because it was identified that there is a current reporting option on Schedule D, Part 6, Section 1 for investment subsidiaries that flow through for a look-through RBC, even though the concept of investment subsidiaries was eliminated from *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in 2005. She stated that this lingering aspect was brought to the Working Group due to an uptick in the use of this classification. She stated that the agenda item had three potential considerations, and NAIC staff collaborated with interested parties to learn more about investment subsidiaries. She stated that NAIC staff found that most of the increase is due to holding residential mortgage loans through Delaware Statutory Trusts (DSTs). She stated that NAIC staff recommend deferring this agenda item and proposing a new agenda item to address residential mortgage loans held through DSTs, specifying accounting and reporting for these structures. She stated that companies usually report them in one of three ways: 1) on Schedule B; 2) or on Schedule BA with a look-through; or 3) using the investment subcategory. She stated that the aim is to have consistent reporting for similarly structured DSTs, and the goal is to address this by May or summer and then reopen this item to potentially eliminate the investment subsidiary reporting category. She stated that if other consistent structures are reported through the investment subsidiary and look-through RBC, they should be brought to the attention of NAIC staff. She stated that once the DST dynamic is addressed, NAIC staff will propose eliminating these categories.

Angelica Sanchez (New York Life Insurance Company) and Rose Albrizio (Equitable) represented interested parties. Sanchez stated that interested parties support further exploring the DST concept and its use for residential mortgages. She stated that these trusts provide significant operational efficiency and cost-effectiveness for investing in residential mortgages, which has been beneficial given the recent interest rate increases, and they are happy to work on any accounting or reporting guidance to provide clarity and consistency for these investments. Sanchez stated that they have concerns about the complete elimination of investment subsidiaries,

and while they learned a lot about DST, it does not mean that no other entity types are using the investment subsidiary concept. She stated that they need to understand where others may be using common stock subsidiaries for holding certain investments. She stated that some law firms have informed them that the concept of an investment subsidiary comes from state insurance investment statutes based on an NAIC model act and that removing this concept might create unintended consequences that could contradict state law. She stated that it would be prudent to further investigate the use of investment subsidiaries and ensure transparency and that insurers are willing to provide asset listings if required.

Bruggeman stated that further research is needed to address concerns about deletion and its connection to state investment law or model regulations.

The Working Group deferred this item to allow for further consideration of DSTs holding residential mortgage loans and whether specific statutory accounting parameters and guidance should be established. In addition, further research is needed to better understand existing legal references.

E. Ref #2024-24

Bruggeman directed the Working Group to agenda item *2024-24: Medicare Part D – Prescription Payment Program.* Marcotte stated that on Feb. 25, the Working Group exposed additional revisions to tentative *INT 24-02: Medicare Part D Prescription Payment Plans* (Attachment One-F)and re-exposed minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* (Attachment One-G) for a shortened comment period ending March 5 to allow for discussion at the Spring National Meeting. She stated that the Working Group directed NAIC staff to continue with blanks proposals on this topic for incorporation into the 2025 annual statement instructions. Marcotte stated that the Feb. 25 revisions were primarily terminology changes that did not alter the key provisions of the November 2024 exposure.

Marcotte stated that the Medicare Prescription Payment Plan (MPPP), effective Jan. 1, 2025, offers Part D enrollees the option to pay out-of-pocket Part D prescription drug costs through monthly payments over the plan year instead of at the pharmacy counter. Marcotte stated that INT 24-02 was developed with input from health industry representatives. The key INT 24-02 components include admitted asset treatment for receivables from MPPP participants less than 90 days overdue, nonadmittance of recoverables more than 90 days overdue, impairment analysis for MPPP recoverables, and reporting uncollectible receivables as Medicare prescription claims expense. Marcotte stated that NAIC staff recommend adoption of the exposed minor edits to INT 05-05 and recommend adoption of the exposed revisions to INT 24-02 with the addition of almost all the March 5 modifications suggested by the Blue Cross Blue Shield Association (BSBSA) and AHIP. She stated that the majority of the AHIP and BCBSA proposed revisions are minor wording clarifications. She stated that the revisions to paragraph 23 clarify differences in the medical loss ratio between the federal calculation and statutory accounting. Marcotte stated that NAIC staff proposed a correction to the illustration in scenario 2 to change an amount from negative to positive. She stated that the proposed revisions do not change the key accounting components. She stated that all revisions have been discussed with representatives of the BCBSA and AHIP.

Tom Finnell (AHIP) and Carl Labus (BCBSA) spoke on the joint comment letter from AHIP and the BCBSA. Finnell mentioned that they brought this issue to NAIC staff's attention last summer. He noted that it was a new program without analogous existing statutory accounting guidance. From the first draft, interested parties agreed with the basic concepts NAIC staff proposed. He also highlighted that members brought forward many terminology suggestions and that interested parties appreciate the NAIC staff’s assistance with the drafting process.

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Walker made a motion, seconded by Sherman, to adopt the exposed minor edits to INT 05-05*: Accounting for Revenues Under Medicare Part D Coverage* and adopted the exposed revisions to INT 24-02*: Medicare Part D Prescription Payment Plans* with the addition of almost all of the modifications suggested by BCBSA and AHIP as recommended by NAIC staff (Attachment One- H). The motion passed unanimously.

F. Ref #2024-04

Bruggeman directed the Working Group to agenda item *2024-04: Conforming Repurchase Agreement Assets.* Gann stated that this item originated from the Life Risk-Based Capital (E) Working Group due to a proposal to expand the conforming concept for securities lending to repurchase agreements. She stated that NAIC staff identified different accounting treatments and initiated a project to investigate. She stated that, at the 2024 Summer National Meeting, the Working Group exposed this agenda item along with a memorandum detailing accounting and reporting guidance for securities lending and repurchase agreements. She stated that various questions were identified regarding the current application of the guidance and that the full comment letter from interested parties addresses each issue and question. Gann stated that, through this process, certain aspects of the guidance in *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* were found to not be consistently applied, raising overall application questions. She stated that there are also questions about existing applications. She stated that NAIC staff are asking the Working Group to direct development and revisions to statutory accounting for securities lending and repurchase agreements. Gann stated that NAIC staff may propose separating this guidance from SSAP No. 103 into a new standard, with references to the original guidance. She stated that NAIC staff have a list of items to address on the agenda and that it is open to all related concepts. She stated that NAIC staff would like to streamline the guidance as it has been about 10 years since extensive repurchase disclosures were incorporated and that there may be opportunities to scale back some of these disclosures.

Bruggeman stated that this came from an RBC referral to have a similar result from repurchase versus securities lending. He stated that through the course of this discussion and research, NAIC staff identified some differences. He stated that newer information has become known over the last 10 years. He stated that this is not urgent; however, the Working Group needs to make sure to get those things consistent, and if there is a need in the future, they can do that. He stated that the Working Group should address this as time allows.

The Working Group directed NAIC staff to proceed with developing and presenting revisions to clarify the statutory accounting guidance, potentially with consideration of separating securities lending/repurchase guidance from SSAP No. 103 into a separate statement. Although the list of elements to review is lengthy, NAIC staff believe most of the items will only result in clarifications, with the potential for enhanced/consolidated disclosures.

G. Ref #2024-15

Bruggeman directed the Working Group to agenda item *2024-15: ALM Derivatives.* Gann stated that this agenda item addresses asset-liability matching (ALM) derivatives. She stated that it was exposed at the 2024 Summer National Meeting, and comments were initially considered during the Dec. 17, 2024, meeting. She stated that due to the complexity of the topic and the extent of the comments, the Working Group deferred any action, including directing NAIC staff, to allow more time for consideration. Gann stated that the project involves reviewing IMR, where it was identified that derivative gains and losses from non-accounting effective hedges were being reclassified to IMR. She stated that these items are reported at fair value during their life, but companies reverse the fair value change at termination and amortize it through IMR. Gann stated that the IMR Ad Hoc Group's discussions suggested establishing statutory accounting guidance for these economically effective hedges. Gann

stated that data from the 2024 IMR disclosure showed that 35% of the net negative IMR balance comes from derivative losses taken to IMR, with only a few companies doing this. She stated that the guidance in *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* stated that derivative losses cannot be admitted to IMR unless derivative gains have historically been admitted and that more companies have expressed interest in using a deferral account for these non-accounting effective hedges. Gann stated that NAIC staff seek feedback from the Working Group on moving forward with a project to establish guidance for these hedges. She stated that NAIC staff are not asking the Working Group to decide on admission but to review the derivative gains and losses. She stated that initial feedback indicates regulator support for removing these from IMR and that, at a minimum, the accounting guidance would ensure these derivative gains and losses are no longer included in the IMR balance. Gann stated that developing this guidance will be complex. She said NAIC staff request industry assistance in specifying hedge effectiveness and other parameters and that Working Group support is crucial for this project. Gann stated that this agenda item is somewhat akin to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, which also has a deferral option for limited derivative activity.

Bruggeman stated that the general direction is to pull these out of how they roll through IMR so the Working Group can see them on their own and then decide if there is any net asset involved, how to interpret that, or how to go through the process from that perspective so that it is on its own rather than being buried in the gain/loss of a bond.

Carmello stated support for removing it from IMR as it will simplify the IMR process. He stated that he assumes the guardrails will be similar and that the Working Group will need to work on hedge effectiveness and related aspects.

Clark stated his support for moving forward with this project.

The Working Group directed NAIC staff to proceed with developing statutory accounting guidance, working closely with Working Group members and industry representatives.

3. Considered Maintenance Agenda—Pending Listing

Hudson made a motion, seconded by Malm, to expose the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a public comment period ending June 6, except for agenda items 2024-07, 2025-04, 2025-05, 2025-06, 2025-07 and 2025-08, which have a comment period ending May 2. The motion incorporated updates to include the industry discussion document with the exposure of agenda item *2025-03: IMR Definition* and to receive the Financial Analysis (E) Working Group referral within agenda item 2025-05. The motion passed unanimously.

A. Agenda Item 2025-01

Bruggeman directed the Working Group to agenda item *2025-01: Sale Lease Clarification*. Stultz stated that NAIC staff received a question about a sale leaseback transaction where the cash received from the sale was significantly restricted, preventing the selling insurance company from accessing it until the leaseback was fully paid off. He stated that this agenda item aims to clarify that sales leaseback accounting is not applicable when the selling insurer cannot readily access the sale proceeds, and the financing method should be used instead. Stultz stated that 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. 22—Leases* to clarify that sale leasebacks with restrictions on

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access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method.

B. Agenda Item 2025-02

Bruggeman directed the Working Group to agenda item *2025-02: ASU 2024-04, Induced Conversions of Convertible Debt Instruments.* Wil Oden (NAIC) stated that *Accounting Standards Update (ASU) 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* aims to improve the relevance and consistency of induced conversion guidance for issuers of convertible debt instruments who have modified the conversion privileges to induce conversion. For issuers of convertible debt securities, guidance is provided in *SSAP No. 15—Debt and Holding Company Obligations*, which requires the issuer to recognize an expense for the fair value of additional consideration issued to induce conversion, consistent with U.S. GAAP. Oden stated that ASU 2024-04 provides guidance on the issuer's accounting provisions, not holders receiving consideration. Additionally, most of the ASU revisions refer to previously rejected areas for statutory accounting purposes. However, the ASU revisions related to recognizing accepted inducement offers and the types of property that can be received upon conversion are recommended for adoption by this agenda item. Oden stated that NAIC staff recommend adopting language related to accepted inducement offers and types of property received from convertible debt instruments. He stated that the agenda item also revises statutory guidance to require recognition of additional consideration when the debt holder accepts the offer rather than when the offer is issued, aligning with U.S. GAAP. He stated that these debt issuances are not expected to be prevalent in the insurance industry, and the timing of recognition is not expected to vary significantly. Oden stated that NAIC staff recommend the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 15 to adopt with modification ASU 2024-04.

C. Agenda Item 2025-03

Bruggeman directed the Working Group to agenda item *2025-03: IMR Definition*. Gann stated that this agenda item presents the proposed IMR definition suggested by the ACLI for inclusion in *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve*. She stated that it focuses on the specific IMR definition, separate from agenda item *2023-14: Hypothetical IMR Memo*, which addresses broader revisions to SSAP No. 7 and the removal of accounting-related guidance from the annual statement instructions. Gann stated that the IMR Ad Hoc Group, formed in October 2023, has been working on IMR and AVR issues.

Gann stated that the materials have two different proposed IMR definitions, which are both being considered for exposure. The ACLI proposed one definition NAIC staff proposed one definition with modifications to the ACLI definition. Gann stated that NAIC staff's proposed modifications include removing the reference to derivatives from the IMR scope. Gann stated that references to economic and noneconomic are also proposed to be replaced with realized gains and losses to provide more plain English. Gann noted that the final paragraph in the ACLI's definition is also proposed for deletion as it is more a conclusion statement, and the Working Group has not yet decided on the admissibility of negative IMR and/or limitations. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose the proposed ACLI IMR definition along with the NAIC staff's proposed IMR definition. She stated that NAIC staff support this agenda item as a new SAP concept as the adopted definition will be included in the expanded SSAP No. 7, as part of the intent to include all accounting-related concepts for IMR in the SAP and not the annual statement instructions.

Bruggeman inquired if the ACLI discussion draft on the IMR definition should be included in the exposure. Gann stated that the exposure could definitely include the ACLI discussion document on the IMR definition. Bruggeman

stated that it makes sense to include the ACLI discussion document with the exposure posting as it gives feedback from an industry perspective resulting from the IMR Ad Hoc Group's discussions.

D. Agenda Item 2025-04

Bruggeman directed the Working Group to agenda item *2025-04: Capital Structure Code.* Gann stated that this agenda item proposes deleting the "capital structure code" reporting column in Schedule D, Part 1, Section 1: Long-Term Bonds—Issuer Credit Obligations (Schedule D-1-1) and Schedule D, Part 1, Section 2: Asset-Backed Securities (Schedule D-1-2). She stated that it reflects a reporting change, not a statutory accounting change, and seeks feedback from regulators on the use of these codes and preferences for retaining, expanding, clarifying, or limiting their application. Gann stated that questions have arisen about the consistent allocation of codes across companies and their relevance with expanded reporting from the principles-based bond project. She stated that, originally added in 2015, the codes aimed to create a "Capital Structure Code Regulator Report," which has not been generated. She stated that the NAIC Securities Valuation Office (SVO) does not use company-reported Schedule D information for assessments but relies on external data feeds, legal agreements, and financial statements. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing and expose, for a shortened comment deadline ending May 2, this agenda item with the proposal to delete the "capital structure code" reporting column in Schedule D-1-1 and Schedule D-1-2 for year-end 2025. She stated that this agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify, and/or limit the application to specific reporting lines to improve consistency and usefulness. Gann stated that, although NAIC staff do not desire to remove any investment information being utilized by regulators, this agenda item is consistent with the intent of the Blanks (E) Working Group charge to review and eliminate data elements to ensure reporting meets the needs of regulators. She stated that by removing unnecessary or unused data elements, industry can focus on other elements that are more beneficial to the needs of regulators. Gann stated that if there is a desire to instead expand/clarify and/or limit the application to specific reporting lines, feedback is welcome on guidance to improve consistency in reporting and/or identify if there are certain reporting lines on Schedule D-1-1 or Schedule D-1-2 for which the code should be applicable.

E. Agenda Item 2025-05

Bruggeman directed the Working Group to agenda item *2025-05: Reinsurer Affiliated Assets*. Gann stated the agenda item proposes improved financial statement reporting for reinsurer-affiliated assets in response to the Jan. 7, 2025, referral from the Financial Analysis (E) Working Group. Gann stated that it recommends enhanced reporting or disclosures to identify whether investments held under modco or FWH arrangements are related to or affiliated with the reinsurer. The proposal from agenda item *2024-07: Modco Reporting* suggests capturing aggregate detail corresponding to AVR reporting, while agenda item 2024-20 proposes identifying held modco/FWH assets as restricted and capturing information by broad investment category. To proceed with the Financial Analysis (E) Working Group request, the agenda item recommends expanding restricted asset disclosures to identify related party or affiliated investments using existing related party investment codes. Additionally, it proposes requiring full restricted asset disclosure in all annual and quarterly financial statements, addressing notable swings in restricted assets not considered "significant" under current guidance. Gann stated that NAIC staff recommend that the Working Group receive the Financial Analysis (E) Working Group referral (Attachment One-I) and expose this agenda item for a shortened comment period ending May 2 while concurrently sponsoring a blanks proposal to expand the restricted asset reporting to capture information by investment schedule, of modco and FWH assets that are related to the reinsurer and to require the restricted asset disclosure in all quarterly and annual financial statements. She stated that to meet the needs of state insurance regulators, it is

recommended that this item be planned for data capture with a year-end 2025 effective date. She stated that this effective date will require adoption of the agenda item and the corresponding blanks changes no later than May 2025. She stated that if it is not possible to adopt with that timeline, then the Working Group could still adopt a disclosure for year-end 2025, but it would not be data captured until year-end 2026.

Bruggeman stated that aiming to adopt everything before the end of May or mid-June may not be ideal due to the blanks process. He stated that he hopes the Working Group can achieve this for year-end, though the quarterly piece would not be ready until 2026.

F. Agenda Item 2025-06

Bruggeman directed the Working Group to agenda item *2025-06: AVR Line: Unrated Multi-Class Securities Acquired by Conversion.* Gann stated that NAIC staff received a question about what should be captured in the Default Component of the AVR—Basic Contribution, Reserve Objective, and Maximum Reserve Calculation, reporting line 8, "Unrated Multi-Class Securities Acquired by Conversion." She stated that, after review, NAIC staff believe this historical line should not be retained in the AVR schedule, as no securities can be reported here under current statutory accounting concepts. She stated that this guidance dates to 1993, before the SVO incorporated the filing exempt concept. Gann stated that, with the principles-based bond definition, only qualifying debt securities are reported as bonds on Schedule D, Part 1 (Schedule D-1), and the AVR schedule, which cross-checks to Schedule D-1. She stated that an NAIC designation must be reported for all bond-qualifying securities. She stated that no entities used this AVR line in 2022 or 2023, but one company plans to report amounts for 2024, causing cross-check errors and questions about reserve factors. She stated that securities previously held in an asset-backed securities (ABS) structure should be reported according to the applicable SAP. Gann stated that this agenda item proposes removing this line from the AVR schedule, with no change to statutory accounting, and will be exposed separately by the Blanks (E) Working Group. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the life/fraternal annual statement blank and the, AVR: Default Component – Basic Contribution, Reserve Objective, and Maximum Reserve Calculation with a proposal for year-end 2025 to change reporting line 8 from "Unrated Multi-Class Securities Acquired by Conversion" to "intentionally left blank." The recommendation to rename the reporting line rather than remove it is to avoid renumbering all lines in the AVR schedule.

Bruggeman stated changing the language to "intentionally left blank" was a good solution.

G. Agenda Item 2025-07

Bruggeman directed the Working Group to agenda item *2025-07: Dividend General Interrogatory Update.* Stultz stated that NAIC staff received a question about disclosing a dividend made using non-related party corporate bonds. He stated that, while allowed under *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 13.i., the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, No. 12 only includes lines for cash and stock dividends. He stated that this disclosure is not required in other annual statement blanks or by SSAP No. 72. Stultz stated that NAIC staff recommend removing this general interrogatory from the Life/Fraternal Annual Statement Blank. He stated that this agenda item will not change statutory accounting and will be exposed separately by the Blanks (E) Working Group. Stultz stated that NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions for a shortened comment deadline ending May 2 to the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, No. 12 to remove this disclosure as it is not consistently included across all annual

statement blanks. He stated that this agenda item will not result in statutory accounting revisions but is proposed to be effective for year-end 2025.

Bruggeman asked how that extra property dividend ended up there and whether it had been there for a long time or resulted from the merger of the life and fraternal blanks and requested that NAIC staff, as part of the exposure, research what drove the property dividend disclosure to be there.

H. Agenda Item 2025-08

Bruggeman directed the Working Group to agenda item *2025-08: Medicare Part D Prescription Payment Plan Disclosures.* Marcotte stated this agenda item was drafted to develop disclosures for the Medicare Part D Prescription Payment Plan (MPPP, with accounting guidance in INT 24-02. She stated that effective Jan. 1, 2025, MPPP requires all Medicare prescription drug plans (Part D plan sponsor), including standalone and Medicare Advantage plans with prescription drug coverage, to offer enrollees the option to pay out-of-pocket prescription drug costs through monthly payments over the plan year instead of upfront at the pharmacy. Marcotte stated that MPPP participants will pay $0 at the pharmacy for covered Part D drugs, while the Part D plan sponsor pays the pharmacy the total out-of-pocket amount and their portion of the payment. She stated that the sponsor then bills the participant monthly for any cost-sharing incurred. Marcotte stated that NAIC staff recommend the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 84—Health Care and Government Insured Plan Receivables* to add the disclosures as illustrated in the agenda item for a shortened comment period ending May 2. She stated that the disclosures are proposed for initial data capture in the year-end 2025 financial statement notes. She stated that this agenda item is proposed as a simultaneous exposure with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025 year-end. Marcotte stated that key points in the recommended disclosures are amounts reported before and after nonadmission, aging, and information on write-offs. She stated that, although NAIC staff considered adding line(s) for the MPPP receivables to the health care receivables exhibits in the annual statement blank, at this time, NAIC staff recommend putting the information in the existing health care receivables notes. Marcotte stated that this placement can be evaluated to determine if additional lines are recommended in the health care receivable exhibits as more information on the materiality of the new 2025 MPPP program becomes available.

Bruggeman stated that he assumed the blanks exposure had already occurred and that other blanks items, such as the one for the INT, will likely be exposed this week.

I. Agenda Item 2025-09

Bruggeman directed the Working Group to agenda item *2025-09: VM-22 Update Coordination.* Marcotte stated that this agenda item recommends minor consistency revisions to *SSAP No. 51—Life Contracts* to align with updates made by the Life Actuarial (A) Task Force to *Valuation Manual* (VM)-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities. She stated that the revisions primarily add minor references and clarify different reserving methodologies, including adding “and”/“or” in a few places and a specific reference to “variable annuities.” Marcotte stated that NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions that add minor consistency revisions to SSAP No. 51 to reflect updates to VM-22. She stated that the revisions are minor edits to clearly reflect the new VM-22 principle-based reserve (PBR) requirements between the different methods of reserving.

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Hemphill stated that these are minor clarifications and that prior references to principle-based annuity reserves only applied to variable annuities, but the types of annuities that PBR applies to is expanding and more types of are coming.

J. Agenda Item 2025-10

Bruggeman directed the Working Group to agenda item *2025-10: ASU 2023-07, Improvements to Reportable Segment Disclosures.* Oden stated that in November 2023, the Financial Accounting Standards Board (FASB) issued *ASU 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* to improve disclosures about public entities' reportable segments and address investor requests for more detailed expense information. He stated that the ASU requires public companies to disclose significant segment expenses provided to the chief operating decision maker and included in each reported measure of segment profit or loss, known as the "significant expense principle." He stated that it also requires disclosure of "other segment" items by reportable segment and a description of their composition. Oden stated that NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2023-07 as not applicable to statutory accounting. He stated that this item is considered not applicable as the ASU amends U.S. GAAP guidance on segment reporting disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Additionally, Topic 280–Segment Reporting was established from Statement of Financial Accounting Standards (FAS) No. 131, which has previously been determined to be not applicable to statutory accounting principles by the Working Group. Oden also noted that the annual statement reporting process already requires expense disaggregation reporting by line of business and jurisdiction.

K. Agenda Item 2025-11

Bruggeman directed the Working Group to agenda item *2025-11: ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)* and *ASU 2025-01, Reporting Comprehensive Income.* Oden stated that in November 2024, the FASB issued ASU 2024-03 to improve disclosures about public business entities' expenses and provide more detailed information on types of expenses in commonly presented captions. He stated that, in January 2025, the FASB issued ASU 2025-01 to clarify the effective date of ASU 2024-03. Oden stated that both ASUs are proposed to be rejected as not applicable because they revise guidance on comprehensive income disclosure for public entities, a concept not relevant to statutory accounting. NAIC staff recommend that the Working Group expose revisions to *Appendix D – GAAP Cross-Reference to SAP* to reject both ASUs as not applicable to statutory accounting.

L. Agenda Item 2025-12EP

Bruggeman directed the Working Group to agenda item *2025-12EP: Spring 2025 Editorial Revisions.* Gann stated that interested parties recommended the editorial revisions to further clarify the treatment of issue papers in Level 5 of the statutory hierarchy and to update the reference to U.S. Securities and Exchange Commission (SEC) rules and interpretations as authoritative U.S. GAAP for SEC registrants. She stated that these edits are considered editorial as they are consistent with the revisions adopted Feb. 24 for the inclusion of issue papers in Level 5 of the statutory hierarchy. Gann stated that NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose editorial revisions as illustrated within the agenda item.

4. Considered Maintenance Agenda—Pending Listing

A. Agenda Item 2023-14

Bruggeman directed the Working Group to agenda item *2023-14: Hypothetical IMR Memo.* Gann stated that this memorandum details the IMR Ad Hoc Group's discussions and conclusions on hypothetical IMR. She stated that the group identified the merits and rationale but reached an informal consensus that practical limitations outweigh the benefits. She said they recommend exposing this memorandum to the full Working Group for comment. Gann stated that, if supported, the discussion and conclusion will be documented in the IMR issue paper and reflected in revisions under the broad IMR project in agenda item 2023-14.

Bruggeman thanked Clark for producing the draft and going through the editing process for the Ad Hoc Group.

Clark made a motion, seconded by Walker, to expose the hypothetical IMR memorandum from the IMR Ad Hoc Group for comment.

5. Received an Update on the IMR Ad Hoc Group

Gann stated that the IMR Ad Hoc Group has met regularly since October 2023. She stated that, since the 2024 Fall National Meeting, discussions have focused on IMR from reinsurance transactions as well as the concept to prove reinvestment for sold fixed-income instruments where a realized gains/loss is taken to IMR. She stated that they aim to address reinvestment and excess withdrawal assessments collectively. She stated that industry is reviewing granular cash flow information for sales before maturity and separating investment acquisitions from reinvestment activity. Gann stated that yield assessments are also considered to improve asset yield upon reinvestment. She stated that although the group has concluded on hypothetical IMR, further discussion on reinsurance aspects will continue. Gann stated that *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* is effective until Dec. 31, 2025, with automatic nullification on Jan. 1, 2026, and that the Working Group will review this timeline and assess the INT. She stated that INT 23-01 allows negative IMR to be admitted for up to 10% of adjusted capital and surplus.

Bruggeman noted that the IMR Ad Hoc Group has been meeting approximately every other week and discussing complex topics. He noted that meeting the year-end 2025 deadline to fully implement the new proposed guidance will be very difficult. He stated that the Working Group and industry need to begin thinking about whether the INT will need to be extended or if it will be allowed to lapse, etc.

Gann noted that she sent an email to the Working Group members on the IMR data. She noted that regulator feedback on the data was requested. She noted that the reporting was inconsistent and lacking. Therefore, if the interpretation is extended, the Working Group also may need to consider how to improve the reporting. Gann stated that this could be with better instruction or by contacting companies.

6. Received a Referral from Life Risk-Based Capital (E) Working Group

Gann stated that on Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received and exposed for public comment ACLI proposal 2025-05-L, which seeks to clarify LR010 instruction so that "SVO-designated non-bond debt securities" obtain asset concentration factor treatment akin to bonds in LR002 (Option 1). She stated that this option aligns with concentration RBC treatment pre- and post-principle-based bond definition adoption. She stated that, alternatively, Option 2 proposes a 15% asset concentration factor for "Other Schedule BA Assets,"

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representing a hybrid approach with NAIC designation-driven base factors. Gann stated that Working Group member comments are requested by April 11 to ensure accurate determination among these options.

Bruggeman stated that Working Group members should provide feedback regarding the asset concentration factors. Gann stated that the items do not meet the definition of bonds under the principles-based bond definition. She stated that the referral was asking if it was appropriate to include the assets that do not meet the definition of a bond in the asset concentration factor as a bond for the items that failed the bond definition but had an SVO designation. Gann stated that she thought they did not want to contradict the principles-based bond definition but that there might be some rationale for putting the assets with that bond asset concentration factor.

Clark noted that this is proposed to apply only to the assets that failed the bond definition but were filed with the SVO for a designation. He stated that life RBC allows an RBC charge based on the SVO designation, which is more bond-like. Bruggeman stated that this results in a Schedule BA "bond-like" RBC charge. Clark noted that the SVO review and designation have been applied to the assets under discussion.

Hudson made a motion, seconded by Clark, to receive the Life Risk-Based Capital (E) Working Group referral (Attachment One-J). The motion passed unanimously.

7. Received Notice of a Scheduled Joint Meeting with the Life Actuarial (A) Task Force

Marcotte stated that agenda items *2024-05: Appendix A-791* and *2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts* will be discussed in a joint meeting with the Life Actuarial (A) Task Force scheduled for April 10. Bruggeman noted that the Feb. 18 joint meeting with the Life Actuarial (A) Task Force was held in regulator-to-regulator session to allow discussion of specific company details. He stated that the upcoming public session will review some additional conceptual details from industry and regulators to progress on these items.

8. Received Notice of a Scheduled Working Group Meeting

Marcotte stated that the Working Group plans to meet May 22 to review comments on agenda items with a shortened comment deadline of May 2.

9. Review of U.S. GAAP Exposures

Stultz identified seven U.S. GAAP items currently exposed by the FASB (Attachment One-K). He stated that comments are not recommended at this time and that NAIC staff recommend a review of the final issued ASUs under the SAP maintenance process as detailed in *Appendix F—Policy Statements*.

10. Received Notice of the Electronic Version of the AP&P Manual

Gann stated that the NAIC *As of March 2025 Accounting Practices and Procedures Manual* (AP&P Manual) and other NAIC publications are available to be downloaded for free from the NAIC Resource Center beginning in 2025. Gann also highlighted that Wendy Jacks (NAIC) put together a new adoptions page that is also available on the Working Group's web page.

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11. Received an Update on the IAIS Audit and Accounting Working Group (AAWG

Gann stated that she and Maggie Chang (NAIC) monitor International Association of Insurance Supervisors (IAIS) discussions. She stated that the last virtual meeting was Feb. 18. She stated that the IAIS Audit and Accounting Working Group's (AAWG's) actions to review issuances from international bodies are not relevant to the U.S. However, the insurance capital standards (ICS) implementation project and potential revisions to *ICP 9: Supervisory Reporting* and *ICP 20: Public Disclosure* are of interest. Gann stated that, in response, the International Insurance Regulations (G) Committee formed the Aggregation Method Implementation (G) Working Group for comparable ICS implementation, including reporting and disclosure requirements.

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

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Draft: 3/5/25

Statutory Accounting Principles (E) Working Group
Virtual Meeting
February 25, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Feb. 25, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis and Richard Russell (AL); Kim Hudson (CA); William Arfanis and Micheal Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Shantell Taylor (LA); Steve Mayhew and Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Levi Olson (WI).

1. Notice of Extended Exposure of Agenda Item 2023-23

Bruggeman discussed agenda item 2023-23: Current Expected Credit Losses (CECL). Wil Oden (NAIC) stated that on Aug. 13, 2024, the Working Group exposed a draft issue paper documenting pre-CECL U.S. generally accepted accounting principles (GAAP) impairment guidance for historical purposes. The comment deadline was initially set for Nov. 8, 2024, but was extended to Dec. 16, 2024.

Interested parties requested more time to ensure accurate descriptions of U.S. GAAP practice versus statutory accounting. On Dec. 19, 2024, the Working Group chair extended the comment period to May 2, 2025, allowing more review time post-2024 year-end statutory filings and the NAIC Spring National Meeting. No further action is needed at this time.

2. Adopted Non-Contested Positions

A. Agenda Item 2024-16

Bruggeman directed the Working Group to agenda item 2024-16: Repacks and Derivative Instruments. Julie Gann (NAIC) stated that on Dec. 17, 2024, the Working Group exposed proposed annual statement instructions to clarify that held debt securities sold to a special purpose vehicle (SPV) and then reacquired with added derivative components should be reported as a disposal and reacquisition in the investment schedules. The Blanks (E) Working Group will also expose a related proposal sponsored by the Working Group. She stated that interested parties had no comments on this item.

Malm made a motion, seconded by Hudson, to adopt agenda item 2024-16 (Attachment One-A1) and indicated support for the Blanks (E) Working Group proposal to clarify the disposal and acquisition reporting for investments that are transferred to an SPV and then reacquired with derivative wrappers or components. The motion passed unanimously.

B. Agenda Item 2024-22

Bruggeman directed the Working Group to agenda item 2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards. Oden stated that agenda item 2024-22 was drafted in response to *Accounting Standards Update (ASU) 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards*, which was issued by the Financial Accounting Standards Board (FASB) to clarify the application of stock compensation guidance on profits interest and similar awards. He stated that profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the company. Oden stated that this ASU was drafted to help companies determine whether a profits interest

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award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation, or other Topics).

Hudson made a motion, seconded by Clark, to adopt the revisions as exposed, which adopt with modification ASU 2024-01, within *Statement of Statutory Account Principles (SSAP) No. 104—Share-Based Payments* (Attachment One-A2). The motion passed unanimously.

C. Agenda Item 2024-25

Bruggeman directed the Working Group to agenda item 2024-25: SSAP No. 16 Clarifications. Jake Stultz (NAIC) stated that on Nov. 17, 2024, the Working Group moved this item to the active listing, categorized it as a statutory accounting principle (SAP) clarification, and exposed revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC). He stated that interested parties agreed with the updated references in this agenda item.

Hudson made a motion, seconded by Sherman, to adopt the revisions, as exposed, to clarify the references to the U.S. GAAP ASC (Attachment One-A3). The motion passed unanimously.

3. Review of Comments on Exposed Items

A. Agenda Item 2022-14

Bruggeman directed the Working Group to agenda item 2022-14: Tax Credits Project. Oden stated that on Aug. 13, 2024, the Working Group exposed draft *Issue Paper No. 170—Tax Credits Project,* providing a historical record detailing the revisions and discussion for the adopted revisions to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits*. Oden stated that since its last exposure, the issue paper was updated for additional developments in the Tax Credits Project. He stated that the comment deadline was extended from Nov. 8, 2024, to Dec. 16, 2024. He stated that interested parties had no comments on the initially exposed draft or the new updated revisions that were recommended by NAIC staff to be made on the issue paper.

Travis made a motion, seconded by Bartlett, to adopt the exposed draft of Issue Paper 170, including additional minor updates proposed by NAIC staff (Attachment One-A4). The motion passed unanimously.

B. Agenda Item 2024-10

Bruggeman directed the Working Group to agenda item 2024-10: SSAP No. 56 Book Value and Separate Accounts. Gann stated that the Working Group first exposed updated revisions to *SSAP No. 56—Separate Accounts* at the 2024 Summer National Meeting. She stated that, at the 2024 Fall National Meeting, the Working Group exposed updated revisions to reflect key comments received by the American Council of Life Insurers (ACLI) with a comment period that ended Jan. 31, 2025. She stated that additional comments received have been incorporated into the documents.

Gann provided the following summary of the comments received:

- In paragraph 24, guidance was simplified to refer to paragraph 18 instead of explaining the contracts in scope. She stated that all revisions were tracked, with the new edit being a single line shaded in paragraph 24.

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- An effective date of Jan. 1, 2026, was proposed to allow companies to modify their memorandum of understanding to conform to the new statutory accounting guidance without needing a prescribed or permitted practice.
- Two additional comments were received from interested parties regarding paragraphs 34.c. and 39.f. The comments suggested that the additional disclosures in the original version were unnecessary or duplicative. Gann stated that NAIC staff disagrees, believing the disclosures would benefit state insurance regulators. She stated that the disclosures are similar, one in the general account and one in the separate account, identifying contracts with an inherent or ultimate guarantee back to the general account.

Bruggeman asked whether the Working Group needed to re-expose the edits to paragraphs 22 and 24. He stated that the edits enhance clarity, and the intent remains the same. He said he would not ask for an additional exposure unless someone wanted to do an exposure for those edits.

Gann stated that she had heard informal comments stating that exposure was unnecessary.

Brad Caprari (Prudential Financial), speaking on behalf of interested parties, stated that they did not feel an additional exposure was needed. Rose Albrizio (Equitable), speaking on behalf of interested parties, agreed with Caprari's comment.

Clark made a motion, seconded by Hynes, to adopt revisions to SSAP No. 56 with an effective date of Jan. 1, 2026, with early adoption permitted (Attachment One-A5). The motion passed.

The revisions clarify the measurement method guidance and prescribe guidance for how transfers to/from the general account and separate account shall be recognized. The revisions were adopted with limited changes from the prior exposure, as detailed below:

- Paragraph 22 was revised to incorporate language for the treatment of Interest maintenance reserve (IMR), referring to the language in paragraphs 20 and 21.
- Paragraph 24 was revised to exclude contracts captured in paragraph 18 instead of referring to products that would be captured as separate accounts products under U.S. GAAP.
- Paragraph 49 was added to incorporate the effective date language.

C. Agenda Item 2024-23

Bruggeman directed the Working Group to agenda item 2024-23: Derivative Premium Clarifications. Oden stated that the Working Group exposed this agenda item at the 2024 Fall National Meeting and proposed revisions to *SSAP No. 86—Derivatives* to clarify two issues: 1) to clarify language regarding financing premiums; and 2) clarify the calculation of realized losses in relation to derivative premium. He stated that interested parties provided comments on the proposal. Bruggeman suggested that the proposed revisions for Issue 2 (calculation of realized losses in relation to derivative premium) be captured in the discussion of *Ref #2024-15: ALM Derivatives*. Oden stated that NAIC staff agreed with industry on this point as the Working Group's ongoing discussions on IMR and asset-liability management (ALM) derivatives may significantly impact the treatment of derivative premium costs when calculating realized losses. He stated that NAIC staff recommended the Working Group adopt the exposed revisions to SSAP No. 86 related to financing premium (Issue 1). He stated that the revisions recommended for adoption only included the revisions recommended for financing premium. Oden stated that NAIC staff also recommended that the previously exposed revisions regarding clarifications on the calculation and recognition of realized losses from derivative premium costs be combined with agenda item 2024-15.

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Bruggeman stated it was exposed as a change but only related to the financing premium. He asked whether the revisions to paragraph 63.h.i. are also related to the issue and will be considered part of agenda item 2024-15.

Oden stated that the track changes would be related to the financing premium and that the last sentence is to clarify that for the purpose of this statement, sometimes financing premiums are called unpaid or deferred premiums. He stated that the edits are to clarify that they may be called different things, but unpaid or deferred premiums are still financing premiums. He stated that every edit was related to the finance and premium changes and that items related to clarifying the calculation of realized losses when deferred premium costs are not included in this recommended adoption.

Hudson made a motion, seconded by Travis, to adopt SAP clarification revisions to SSAP No. 86 (Attachment One-A6) and the annual statements related to financing premium (Issue 1). The motion passed unanimously. The Working Group also directed NAIC staff to incorporate the previously exposed revisions regarding clarifications on the calculation and recognition of realized losses from derivative premium (Issue 2) into agenda item 2024-15: ALM Derivatives for further consideration. The rationale for this movement was based on discussions with interested parties, where it was noted that there are several complicating factors when trying to clarify this calculation but also that the main concern on the inclusion of derivative premium costs in the calculation of realized losses was that it could be capitalized into IMR and deferred.

D. Agenda Item 2024-24

Bruggeman directed the Working Group to agenda item 2024-24: Medicare Part D – Prescription Payment Plan. Robin Marcotte (NAIC) stated that, at the 2024 Fall National Meeting, the Working Group exposed the tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* as well as minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. She stated that the Working Group also directed notice of the exposure to the Health Insurance and Managed Care (B) Committee and the Health Risk-Based Capital (E) Working Group and directed NAIC staff to coordinate the annual statement blanks proposals and develop disclosures for future discussions. Marcotte stated that the Medicare prescription payment plan (MPPP) is a new program that offers Medicare Part D enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments over the course of the year instead of all at once at the pharmacy counter.

INT 24-02 was developed with input from health industry representatives and provides statutory accounting and reporting guidance for aspects of MPPP. Key components of the MPPP guidance include the following:

- Allows admitted asset treatment for receivables from MPPP participants that are less than 90 days overdue with reporting on the health care receivables asset line.
- MPPP recoverables from participants which are more than 90 days overdue based on program billing requirements are nonadmitted.
- MPPP recoverables are also subject to impairment analysis.
- Uncollectible receivables from MPPP participants that are written off are reported as a Medicare prescription claims expense.

Marcotte stated that interested parties indicated that they supported the comment letter from AHIP and the Blue Cross Blue Shield Association (BCBSA), which provided extensive comments. She stated that NAIC staff recommended a shortened exposure until March 5, 2025, to allow for discussion of the updated INT 24-02 and the previously exposed (unchanged) minor edits to INT 05-05 at the 2025 Spring National Meeting. She stated that most of the revisions AHIP and the BCBSA suggested have been incorporated, with a few additional clarifications. She stated that the revisions do not change the key accounting provisions. She stated that NAIC staff request

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comments relating to the methodology of recording a contract claim expense. She stated that the comments received suggested that it be optional, and while NAIC staff agree that it is not the only way to do it, the illustration does not work without it. So, comments are requested regarding whether there is an alternative preferred methodology.

Marcotte stated that a disclosure Form A will be included in the 2025 Spring National Meeting materials and a related blanks proposal on the disclosures.

Tom Finnell (AHIP) stated that AHIP is supportive of the exposure and appreciates the NAIC staff's engagement in reviewing additional terminology revisions. He stated that many of the changes are not substantive and that the key substantive conclusions are that assets are admitted subject to admission and impairment testing and, when written off, go to claims costs. He stated that AHIP had no comments on those points and is happy with them. He said AHIP supports the suggestion to re-expose it for a brief period. He stated that, regarding the last item about alternative accounting methods, AHIP consulted its companies, and they are supportive of the version in the INT 24-02. He stated that AHIP will not propose an alternative option.

Bruggeman stated that the INT 24-02 is for a unique program to help apply statutory accounting. He stated that providing the example at the end was an ideal way to ensure consistency across the industry. He stated that, if that seems to be working, he favors a short exposure period of about eight days so the Working Group can review it again at the 2025 Spring National Meeting and finalize it for the industry. He stated that this program started in January 2025, and industry wants as much direction as possible for first-quarter reporting.

Hudson made a motion, seconded by Hynes, to re-expose the revised INT 24-02: *Medicare Part D Prescription Payment Plans* and the previously exposed minor edits to INT 05-05*: Accounting for Revenues Under Medicare Part D Coverage* for a shortened comment period ending on March 5 to allow for discussion at the 2025 Spring National Meeting. In addition, the NAIC staff was directed to continue with the blanks proposals on this topic with the goal of incorporation into the 2025 annual statement instructions.

E. Agenda Item 2024-27

Bruggeman directed the Working Group to agenda item 2024-27: Issue Papers in the Statutory Hierarchy. Gann stated that on Dec. 17, 2024, the Working Group exposed revisions to classify issue papers as Level 5 of the statutory hierarchy. She stated that, currently, they are not in the statutory hierarchy. Gann stated that comments were received in response to the bond definition guidance, inquiring whether issue papers should be named in the hierarchy. She stated that NAIC staff agreed and proposed Level 5 placement, indicating they can be followed as guidance but should be subsequent to all other adopted statutory accounting guidance. She stated that issue papers are not updated after initial adoption; therefore, any subsequent revisions should be considered more pertinent or authoritative than the original issue paper guidance. Gann stated that comments from interested parties suggested placing them in Level 4, but NAIC staff still recommend Level 5. She stated that NAIC staff recommend the revisions detailed in the *Accounting Practices and Procedures Manual (*AP&P), including the Preamble, the introduction to Appendix E - Issue Papers, the guidance titled "How to Use this Manual," and the NAIC Policy Statement on Maintenance of Statutory Accounting Principles, to incorporate issue papers in Level 5.

Bruggeman supported the NAIC staff's logical thought process in settling on Level 5. He noted that this made a lot of sense, especially when incorporating CECL, an old U.S. GAAP topic, into an issue paper. He stated that, at that time, issue papers did not exist in the hierarchy. He stated that placing them in Level 5, like non-authoritative U.S. GAAP guidance and literature, seemed the most appropriate.

Hudson stated that California supports placing issue papers in Level 5.

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Keith Bell (Travelers Companies Inc. – Travelers), representing interested parties, stated that the placement of the issue papers in the statutory accounting hierarchy is unclear as to the intent. He stated that, additionally, interested parties were concerned that the change might undercut the statutory accounting framework by placing a deliberative body of work that the Working Group produced, which provides the basis for many of the various SSAPs, at the bottom of the hierarchy. He stated that historically, the statutory hierarchy was put in place when statutory accounting was codified and was based on the U.S. GAAP hierarchy that existed at that time, which came from *Statement on Auditing Standards (SAS) No. 69, The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*. He stated that the hierarchy was intended to provide guidance when there is conflicting guidance from different sources.

Bell stated that, in the updated background materials for the meeting, it was noted that some users perceived the site issue paper guidance as authoritative, particularly once the issue paper had been posted on the NAIC website, even though the guidance had been replaced by more recent statutory accounting guidance. He stated that, in reviewing the wording in the preamble, the guidance in paragraph 42 is clear that if there is a conflict between the guidance and the levels of the hierarchy, the preparer, regulator, or auditor should follow the treatment specified by the source and the higher level. He stated that if companies or others are misapplying this guidance, that risk will continue no matter the level at which issue papers are placed. He stated that interested parties believe the issue papers fit well in Level 4, along with the SAP Preamble and the statement of concepts. He stated that the rationale for that placement is that it provides the conclusions for all of the SSAPs and the guidance that ended up in the SSAPs, analogous to the basis of conclusions that the FASB used to include in its financial accounting standards. Bell stated that the recent examples of why they think this is appropriate are, as previously cited, the bond issue paper, CECL, and, more recently, the adoption today of Issue Paper No. 170. He stated that interested parties thought a better approach to address the concerns included in the materials was to include the issue papers in Level 4 and add a note to Level 4 of the table emphasizing that more recent SSAPs may supersede certain guidance in the issue papers. He stated that this would also address the problem of having to update an issue paper every time a change to an SSAP is adopted.

Bruggeman stated that issue papers previously were not defined anywhere, and placing them in Level 4 with comments seems to overlook the established hierarchy. He stated that if the issue paper is a historical record of what happened, especially during codification, many of these issue papers are almost identical to the adopted SAPs. He stated that if the SAP was amended later, the issue paper would not always be updated, particularly within several years of the effective date of codification. He stated that issue papers were meant to document the historical context, especially moving from the old life and health and property/casualty (P/C) books into codification.

Bell stated that no matter which level they are placed in, it would be helpful to add a note under the table to point out that the issue papers may have obsolete guidance in relation to more recent SSAPs.

Gann stated that an editorial note could be prepared for future discussion to clarify that the issue papers may be out of date. Bell stated that there is currently nothing in the notes that addresses the issue papers because the issue papers were not included there previously.

Bruggeman stated that the Working Group should keep issue papers in Level 5 for now and not try to wordsmith anything on the call. He stated that they could look at it afterward and, if necessary, provide an update at the 2025 Spring National Meeting and discuss it briefly at that time if warranted.

Hudson made a motion, seconded by Walker, to adopt the exposed revisions to classify issue papers in Level 5 of the statutory hierarchy (Attachment One-A7). The motion passed unanimously.

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F. Agenda Item 2024-28

Bruggeman directed the Working Group to agenda item 2024-28: Holders of Capital Notes. Gann stated that on Dec. 17, 2024, the Working Group exposed revisions to *SSAP No. 41—Surplus Notes* to incorporate changes clarifying capital note references and guidance. She stated that, although capital notes were previously included in SSAP No. 41, there was not much discussion on these instruments and that the focus was primarily on surplus notes. She stated that, with the principle-based bond definition and clarification of certain instruments, updating the definitions and guidance for capital notes was deemed necessary.

Gann stated that the Working Group exposed revisions and received some comments from interested parties, with most edits being minor. First, there was a question regarding paragraph 9.a. of SSAP No. 41, which addresses the admittance of surplus notes and capital notes based on equity limits. She stated that when NAIC staff reviewed this, it did not make sense in the accounting guidance since there were no admittance limits on equity items. Whether this guidance was specific to identifying limits according to state investment laws was considered. She stated that, with the exposure, NAIC staff recommended two options: deleting the paragraph entirely or incorporating proposed revisions to reference state investment laws. She stated that today, NAIC staff recommend deleting paragraph 9.a., consistent with comments received from interested parties and feedback from state insurance regulators who support the deletion. Gann stated that if the Working Group chooses not to delete paragraph 9.a., NAIC staff recommend leaving it unchanged and not incorporating the proposed edits, as the comments indicate these do not align with state investment laws. She stated that the Working Group would need to revisit this paragraph in a separate agenda item to tailor it correctly to refer to the original intent. Gann stated that, additionally, there are edits to paragraphs 18.c. and 21 as recommended by interested parties. She stated that paragraph 21 was a disclosure exposed with edits deemed no longer necessary, as the disclosure would be challenging to complete. She stated that interested parties noted that paragraph 18.c. was similar in this regard, and NAIC staff agreed. She stated that NAIC staff proposed deleting paragraph 18.c. and adding a reference to related parties in paragraph 21. Gann stated that all these disclosures are narrative only and are not data captured. Gann stated that the last comments received related to paragraph 9.b., which addresses non-admittance if a surplus note or capital note is no longer paid. She stated that the guidance was revised to clarify that capital notes should be non-admitted if payments for principal or interest are halted. She stated that interested parties did not support this language but that NAIC staff believed it should be retained under the concept of conservatism. Gann stated that the guidance already indicates that once payment resumes, the capital note can be admitted again. She stated that non-admittance would only occur when payment is halted under paragraph 9.b. She stated that NAIC staff recommend adopting the exposed edits to SSAP No. 41 with the deletion of paragraph 9.a. and the edits to paragraphs 18.c. and 21. She stated that NAIC staff do not recommend changes to the exposed edits for paragraph 9.b.

Bruggeman stated that the proposal essentially moves paragraph 18.c. into paragraph 21, which eliminates some redundancy. He stated that regarding paragraph 9.b., non-admitting rather than doing an other temporary impairment, which would be a write-down, provides more flexibility. He stated that if payments resume, a write-down cannot be reversed. However, non-admittance is conservative and offers flexibility, as once the principal or interest payments resume, the value can be restored accordingly. He stated that it is up to the Working Group to determine how many capital notes are out there and the significance of the regulatory authority to halt principal and interest payments. He also noted that the original paragraph 9.a., part of the original books, was carried over into SSAP No. 41 without much comment during the codification process. Bruggeman stated that if it is causing issues and not serving a purpose, it makes sense to delete it.

Mike Reis (Northwestern Mutual), representing interested parties, stated that they found it onerous to not admit the capital notes if interest was paused for a year or two. He mentioned that he understood the rationale but wanted to make this note.

Clark stated that this approach is consistent with the treatment of surplus notes, which was used as a rationale for scoping these similar instruments. He mentioned that trying to measure an other-than-temporary impairment (OTTI) when a state insurance regulator is exercising their discretion on whether to allow payments to continue would be difficult to do reliably. He stated that, from a company perspective, they are not evaluating the entity's financial strength or collateral values but rather trying to predict regulatory decisions. This is why non-admittance likely makes sense for this type of investment.

Clark made a motion, seconded by Sherman, to adopt SAP clarification revisions to SSAP No. 41—*Surplus Notes* (Attachment One-A8). The motion passed with limited changes from the exposure.

Comments reviewed are included in Attachment One-A9.

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

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Ref #2024-16

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

Issue: Repack and Derivative Investments

Check (applicable entity):

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

Description of Issue: This agenda item has been developed to address debt security investments with derivative components that do not qualify as structured notes. Although the original focus was on specific "credit repack" investments, the agenda item has been expanded to ensure that all debt security investments with derivative wrappers / components are captured.

As an overview of a special purpose vehicle (SPV) "repacking," the structure consists of an SPV acquiring a debt security and reprofiling the cash flows by entering a derivative transaction with a derivative counterparty (known as "credit repacks"). The redesigned debt instrument (reflecting the combined debt security and derivative) is then sold to an investor. NAIC staff has recently received calls on the classification of repacks under the bond definition, but the discussions of these transactions have identified that additional guidance may be warranted to ensure consistent reporting of these transactions within the statutory financial statements. From the discussions, there are initiatives for these combined investments to become more prevalent with U.S. insurance entities, but investment makers have noted that these investments are already common in other countries.

As a key element, repacking (and potentially other derivative wrapped debt structures) takes two separate items (debt security and derivative) and combines them into one instrument that resembles a debt security. This is done at an SPV, with the SPV issuing a new debt security to the reporting entity. From discussions, there are several variations of the derivative components that can be combined with the debt security. Some of them are very simple (such as a cross-currency swap), but others are complex, altering both the amount and timing of cash flows. The structures can be customized allowing for ongoing innovation, benefiting insurers with the ability of entering derivative transactions to appropriately reduce risk, but creating difficulty in the ability to group repacks structures into limited exception guidance.

For all of these structures, the derivative arrangements could be entered into separately and do not need to be entered into as a combined transaction, however, the noted benefits for entering into a combined structure include:

1) **Derivative Margin / Collateral Requirement:** There is no daily settling of a margin requirement at the derivative counterparty based on fair value changes in the derivative. **This is because the debt security in the structure serves as constant collateral, and any amount owed to the derivative counterparty would be taken first from debt instrument cash flows before payment is made to the investor. (The derivative counterparty is senior in priority.)** The repack structure limits the collateral obligation to the debt security in the structure, so there is no potential for the reporting entity to be obligated for more collateral beyond the linked debt security. This is a benefit of a repack in comparison to normal derivatives that do not have a collateral limit.

    - Although perceived as a benefit from the entity / investment maker as it reduces liquidity risk associated with margin calls, from a statutory accounting perspective, if the transactions were reported separately

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and the debt investment was pledged as collateral, the debt instrument would be identified as a restricted asset. If the repack is collectively reported as a debt instrument, there would be no identification that the debt instrument is restricted or encumbered as collateral to the derivative counterparty. This is because the restriction is at the SPV and not the reporting entity. Also, if separately engaging in derivative transactions, the derivative counterparty is known and reported. If a repack is collectively reported as a debt instrument, it is uncertain if the affiliation between the derivative counterparty and reporting entity would be known.

2) **Bond Reporting:** If these structures are accounted for as bonds, **reporting entities would determine measurement method and RBC impact based on the NAIC designation. Ultimately, this structure provides the reporting entity with a derivative arrangement, with no separate reporting or acknowledgement of the derivative instrument within the financial statements.**

   - From a statutory accounting perspective, if reporting is combined in a repack, derivatives would not be captured on Schedule DB and reporting entities would not be required to assess whether the derivative is effective under *SSAP No. 86—Derivatives*. (There is also a question on whether these arrangements would be captured in a reporting entity's derivative use plan filed with the domiciliary state.) Any obligation based on the performance of the derivative would not be reported in the investor's financials.

3) **RBC Impact:** By reporting as a bond investment, the reporting entity would incur a single RBC factor charge based on the NAIC designation on the debt security issued by the SPV.

   - From a statutory perspective, if the investment had been reported separately as a bond and a derivative, there would be RBC impacts for both components. The collateral pledged to the derivative counterparty (bond) would also be coded as a restricted asset. Whether the combined reporting results in a benefit to RBC depends on how the derivative would have been reported separately (at amortized cost or fair value) and whether the derivative is in a loss position. However, if reported separately, these components are captured in the RBC formula to reflect those dynamics.

The following identifies specific elements for discussion:

1) **Sale / Reacquisition:** A "credit repack" can be originated with a reporting entity's currently held debt security. In those situations, the insurer would sell the debt security to an SPV, that security would be combined with a derivative at the SPV, and the SPV would sell the restructured combined instrument back to the insurer.

   From the discussions held, inconsistent interpretations may exist on whether the initial debt security should be reflected as disposed, with the reporting entity acquiring a new investment for the "repack." The discussions have referred to "substantially similar" U.S. GAAP guidance and have noted that the base investment (original debt security) has not changed, therefore the action did not warrant disposal / new acquisition reporting. If this interpretation was applied, the original debt security would still be shown on the financial statements, but with the repack the issuer, yield and NAIC designation have been impacted. If it is concluded that the revised instrument is substantially similar to what was originally held and did not require a disposal / reacquisition, it is likely that there would be no indication in the financial statements that the entity has entered into a new arrangement that combines a debt security and derivative instrument. NAIC staff does not agree with interpretations that the repack is substantially similar based on existing guidance in SSAP No. 103, paragraph 52, but this has been noted as part of the discussions. Under SSAP No. 103, to be considered substantially the same, an investment needs to have the same primary obligor, identical contractual interest rates and identical form and type to provide the same risks and rights. Under a repack, the issuer, yield and designation are impacted as follows, disallowing consideration that the instrument is substantially the same:

- The revised issuer is the SPV and the new instrument is a combined instrument of the debt instrument and the derivative.

- The fees for engaging in this instrument are built into the investment yield, resulting in a lower yield than what would have been received if the original debt instrument was still held.

- The NAIC designation (CRP rating) could also be impacted, as the revised instrument reflects the credit quality of both the original issuer and the derivative counterparty. From discussions, this is often a 1-level decrease in rating.

Not all repacks involve a previously held debt instrument. An entity may acquire a repack directly from the SPV rather than sell a currently owned debt security to the SPV. From the discussions, if this was to occur, it is believed that entities would report the acquired investment as a bond (under existing SSAP guidance), unless the structure is considered to be a structured note under paragraph 5.g. of *SSAP No. 86—Derivatives:*

> 5.g. "Structured Notes" in scope of this statement are instruments defined in *SSAP No. 26R—Bonds* (often in the form of debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest[1]. Structured notes that are "mortgage-referenced securities" are captured in *SSAP No. 43R—Loan-Backed and Structured Securities.*

There is also a question on whether all repacks should be considered structured notes. In a repack structure, if the debt security is liquidated early and there is an amount owed from the derivative performance, the SPV must first satisfy that amount to the derivative counterparty. This could result in a payment less than the principal amount being remitted to the insurer holder. Although the repack designs differ based on the derivative instrument and intent, in some situations this is only driven by the early liquidation of the structure and not a component that comes into play if the structure is held to maturity. In those structures, the design would not be considered a structured note. However, in other designs, the repack may reflect a structured note regardless, and the structured note guidance should be followed.

2) **Derivative Obligation**: A credit repack investment ultimately could allow an insurer to enter into derivative arrangements that are not separately reported or assessed within the scope of SSAP No. 86, which is currently explicit that embedded derivatives shall not be separated from the host contract. If the derivative was to be separately reported, it would only qualify for amortized cost treatment if determined to be highly effective pursuant to SSAP No. 86, otherwise it would be reported at fair value.

From discussions of these investment / derivative designs, NAIC staff has the impression that these derivative arrangements would be reported at fair value if held separately from the debt instrument. (Discussions have indicated that they would be separately reported at fair value under U.S. GAAP.) By combining with the debt security, and if permitted to follow bond accounting, reporting entities would utilize an amortized cost

[1] The "structured notes" captured within scope of this statement is specific to instruments in which the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due). These instruments incorporate both the credit risk of the issuer, as well as the risk of an underlying variable/interest (such as the performance of an equity index or the performance of an unrelated security). Securities that are labeled "principal-protected notes" are captured within scope of this statement if the "principal protection" involves only a portion of the principal and/or if the principal protection requires the reporting entity to meet qualifying conditions in order to be safeguarded from the risk of loss from the underlying linked variable. Securities that may have changing positive interest rates in response to a linked underlying variable or the passage of time, or that have the potential for increased principal repayments in response to a linked variable (such as U.S. Treasury Inflation-Indexed Securities) that do not incorporate risk of original investment/principal loss (outside of default risk) are not captured as structured notes in scope of this statement.

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measurement for the combined credit repack based on the NAIC designation pursuant to current guidance within SSAP No. 26 / SSAP No. 43.

Although it has been communicated that the derivative is designed to match the maturity duration of the debt instrument, if the investment was to be liquidated in advance of the maturity date, the obligation with the derivative counterparty must still be satisfied. If the derivative was in a liability position, upon liquidation of the debt instrument, the SPV would collect the proceeds from the debt instrument and first remit any amount owed to the derivative counterparty before providing the remaining balance to the reporting entity. Although it depends on the derivative arrangement, in some designs, the reporting entity could receive less than the stated principal amount of the bond. For these designs, unless the derivative was reported separately (or the repack was reported at fair value), the amount to be received at any point in time for the repack investment may be overstated due to the derivative impact. *(The inverse is also true, whereas if the derivative was in an asset position, the SPV would collect funds from the derivative counterparty and the reporting entity would receive an amount that exceeds the principal amount of the bond.)*

3) **Principles-Based Bond Definition Application**: The discussion with NAIC staff on credit repacks initially occurred due to questions on whether the repack is an issuer credit obligation (ICO) or an asset-backed security (ABS) under the principles-based bond definition. Initially, it was noted that a repack with a derivative that simply converted cash flows (fixed to floating or foreign currency), but which did not impact the timing or extent of cash flows could still potentially reflect an ICO obligation under the single-entity payer provision, assuming that the investment did not reflect a structured note. However, any design that was to alter the timing or amount of cash flows would result in an ABS classification. For example, if the repack altered the timing of cash flows so instead of periodic interest in line with the debt security terms, all interest payments were accumulated at the SPV and provided at maturity, this would require an ABS classification. If classified as an ABS, it was noted that there would be no substantive credit enhancement (as the structure simply passes through cash flows) and the structure would fail to qualify as a bond. However, after further assessment of these structures, NAIC staff recommends explicit guidance for the accounting of these combined debt / derivative structures. From discussions on these investments, a key driver is getting the combined structure classified as a Schedule D investment. From information shared, a vast array of different derivative structures could be combined with the debt security to form a combined item, with many different cashflow desired outcomes.

Ultimately, NAIC staff believes the issue goes further than bond classification as ICO or ABS. As such, this agenda item proposes SSAP guidance / interpretation to address all situations in which a debt security may be wrapped or combined with a derivative structure to ensure consistent and transparent reporting as well as information to the regulators on these investment transactions. NAIC staff believes the potential for these structures originates from the existing SSAP No. 86 guidance that indicates that embedded derivatives shall not be separated from the host contract and accounted for separately as a derivative instrument. NAIC staff notes that this SSAP No. 86 guidance allows these investment structures to be reported in ways that were perhaps not intended when that embedded derivative guidance was originally established.

Existing Authoritative Literature:

- ***SSAP No. 26R—Bonds (Effective Jan. 1, 2025)***

SSAP No. 26R includes the adopted principles-based bond definition and the provisions for detailing an ICO or ABS. Key provisions from this SSAP are provided below. These excerpts focus on the definition of a bond, the creditor relationship review involving pre-determined interest and principal payments, and relevant provisions of the ICO and ABS terms.

Specific Excerpts:

5. A bond shall be defined as any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security as described in this statement**.**

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.

6.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 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—Derivatives*. 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—Other Admitted Assets.*

[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.

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary 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:

7.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.

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.

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

10a. *Substantive Credit Enhancement*: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement

- ***SSAP No. 86—Derivatives***

SSAP No. 86 provides guidance for derivatives. Paragraph 5.g. addresses structured notes, paragraph 16 addresses variation margin, paragraph 17 addresses embedded derivative investments, with paragraphs 20-21 providing recognition guidance.

5. Derivative instruments include, but are not limited to; options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures, structured notes with risk of principal/original investment loss based on the terms of the agreement (in

addition to default risk), and any other agreements or instruments substantially similar thereto or any series or combination thereof.

5g. "Structured Notes" in scope of this statement are instruments defined in *SSAP No. 26R—Bonds* (often in the form of debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest3. Structured notes that are "mortgage-referenced securities" are captured in *SSAP No. 43R—Loan-Backed and Structured Securities.*

16. "Variation Margin" reflects the daily change in market value of derivative contracts (e.g., daily gain/loss on a derivative contract due to market movements). Amounts received/paid to adjust variation margin on derivative contracts that are both cleared and settled on an exchange shall be recognized as an adjustment to the carrying value of the derivative contract (e.g., futures). Amounts received/paid to adjust variation margin on all other derivative contracts shall be recognized on the balance sheet as an asset or liability separate from the carrying value of the derivative instrument. This treatment shall occur under statutory accounting regardless if the counterparty/exchange considers amounts exchanged for variation margin to be legal settlement or collateral. Changes in variation margin shall not be treated as realized gains or adjustments to the basis of the hedged item until the derivative contract has been sold, matured or expired.

Embedded Derivative Instruments

17. Contracts that do not in their entirety meet the definition of a derivative instrument, such as bonds, insurance policies, and leases, may contain "embedded" derivative instruments—implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. The effect of embedding a derivative instrument in another type of contract ("the host contract") is that some or all of the cash flows or other exchanges that otherwise would be required by the contract, whether unconditional or contingent upon the occurrence of a specified event, will be modified based on one or more underlyings. An embedded derivative instrument shall not be separated from the host contract and accounted for separately as a derivative instrument.

Recognition of Derivatives

20. Derivative instruments represent rights or obligations that meet the definitions of assets (SSAP No. 4—Assets and Nonadmitted Assets) or liabilities (SSAP No. 5R) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*. Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 46-50 of *SSAP No. 100R—Fair Value*. Derivative instruments used in hedging, income generation or replication (synthetic asset) transactions shall be recognized and measured in accordance with the specific provisions within this statement and are admitted assets to the extent they conform to the requirements of this statement.

[3] The "structured notes" captured within scope of this statement is specific to instruments in which the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due). These instruments incorporate both the credit risk of the issuer, as well as the risk of an underlying variable/interest (such as the performance of an equity index or the performance of an unrelated security). Securities that are labeled "principal-protected notes" are captured within scope of this statement if the "principal protection" involves only a portion of the principal and/or if the principal protection requires the reporting entity to meet qualifying conditions in order to be safeguarded from the risk of loss from the underlying linked variable. Securities that may have changing positive interest rates in response to a linked underlying variable or the passage of time, or that have the potential for increased principal repayments in response to a linked variable (such as U.S. Treasury Inflation-Indexed Securities) that do not incorporate risk of original investment/principal loss (outside of default risk) are not captured as structured notes in scope of this statement.

21. Derivative instruments that are not used in hedging, income generation or replication (synthetic asset) transactions shall be considered "Other" derivatives. These derivatives shall be accounted for at fair value and the changes in fair value shall be recorded as unrealized gains or losses. These derivatives do not qualify as admitted assets.

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

SSAP No. 103 provides guidance for the transfers of assets and liabilities, including guidance for when a sale shall be considered to have occurred. Guidance is captured for when securities are sold/reacquired are considered to be substantially the same and how those transactions should be reflected. As detailed in paragraph 52, credit repack notes would not qualify as substantially the same as the credit repack generally has a different issuer, different yield and modified NAIC designation/CRP rating from the original underlying investment.

12. Repurchase agreements, reverse repurchase agreements, repurchase financing, collateral requirements and dollar repurchase agreements are described in paragraphs 102-118. When an asset is sold and the proceeds are reinvested within 30 days in the same or substantially the same security, such transfers shall be considered to be wash sales and shall be accounted for as sales as discussed in paragraphs 96-101 and disclosed as required by paragraph 28[4]. Unless there is a concurrent contract to repurchase or redeem the transferred financial assets from the transferee, the transferor does not maintain effective control over the transferred financial assets.

Agreement to Repurchase or Redeem Transferred Financial Assets

51. An agreement that both entitles and obligates the transferor to repurchase or redeem transferred financial assets from the transferee maintains the transferor's effective control over those assets as described in paragraph 8.c.(1) when all of the following conditions are met:

a. The financial assets to be repurchased or redeemed are the same or substantially the same as those transferred (paragraph 52).

b. The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price.

c. The agreement is entered into contemporaneously with, or in contemplation of, the transfer.

52. To be substantially the same, the financial asset that was transferred and the financial asset that is to be repurchased or redeemed need to have all of the following characteristics:

a. The same primary obligor (except for debt guaranteed by a sovereign government, central bank, government-sponsored enterprise or agency thereof, in which case the guarantor and the terms of the guarantee must be the same);

b. Identical form and type so as to provide the same risks and rights;

c. The same maturity (or in the case of mortgage-backed pass-through and pay-through securities similar remaining weighted-average maturities that result in approximately the same market yield);

d. Identical contractual interest rates;

[4] Paragraph 28.l. also details the items that are excluded from the wash sale disclosure.

e. Similar assets as collateral; and

f. The same aggregate unpaid principal amount or principal amounts within accepted “good delivery" standards for the type of security involved.

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):

In 2023, the Working Group adopted the principles-based bond definition, which resulted in key revisions to *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*, and *SSAP No. 21R—Other Admitted Assets* for the review and classification of debt securities pursuant to the bond definition. This guidance is effective Jan. 1, 2025.

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 recommends that the Working Group move this item to the active listing as a new SAP concept and expose proposed edits to *SSAP No. 86—Derivatives*, to establish guidance that requires separate accounting and reporting of derivatives that are captured in debt security structures. This is a change from existing guidance that explicitly precludes the separation of embedded derivatives. In addition to these changes, minor revisions are also proposed to *SSAP No. 26—Bonds* and to the annual statement instructions to clarify application guidance. NAIC staff will also draft an issue paper to document these revisions.

From initial discussions with banks / investment makers, guidance to separate the derivative from the debt security is believed to be preferred over a conclusion that would preclude bond treatment for the combined structure. With the proposal, debt security repack structures will be treated similarly to investments where the bond and derivative are not combined. (Ultimately, there would be no capital benefit or detriment due to the structure.) Additionally, this proposal will allow transparency as to the derivatives being used and ensure compliance with the reporting entity’s derivative use plan. (If this proposed guidance is not supported, the combined repack, which represents a debt structure, would need to be assessed under the bond definition. This may require more detailed guidance to assess different types of derivative structures to determine whether the repack should qualify as a bond or as a non-bond debt security.)

NAIC staff has not proposed revisions to SSAP No. 103 as the existing guidance is clear that a sale of a debt security which is subsequently or simultaneously reacquired as a credit repack would not meet the criteria of substantially the same. This is because a credit repack generally has a revised issuer, yield and NAIC designation to reflect the additional derivative risk. As noted, minor revisions have been proposed to the annual statement instructions to clarify that the sale of a security that is reacquired with different terms shall be reported as a sale on Schedule D-Part 4 and a new acquisition on Schedule D-Part 3.

Proposed Revisions to *SSAP No. 86—Derivatives*:

Embedded Derivative Instruments

17. Contracts that do not in their entirety meet the definition of a derivative instrument, such as ~~bonds,~~ insurance policies, and leases, may contain “embedded” derivative instruments—implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. The effect of embedding a derivative instrument in another type of contract (“the host contract”) is that

some or all of the cash flows or other exchanges that otherwise would be required by the contract, whether unconditional or contingent upon the occurrence of a specified event, will be modified based on one or more underlyings. For these contracts, excluding debt securities with derivative components/wrappers pursuant to paragraph 18, ~~A~~ an embedded derivative instrument shall not be separated from the host contract and accounted for separately as a derivative instrument.

18. Debt securities that have derivative components or wrappers shall initially be assessed to determine if they are a structured note pursuant to paragraph 5.g. Structured notes shall not be bifurcated and shall be collectively reported as a derivative investment and shall be measured and reported pursuant to the guidance within this statement. Debt securities that are not structured notes, but have been combined with a derivative instrument[FN1] shall be bifurcated with separate reporting as a debt security and a derivative instrument. Once the investment is bifurcated, the debt security shall be reviewed in accordance with the bond definition within *SSAP No. 26—Bonds* and captured as an issuer credit obligation, asset-backed security, or non-bond debt security, based on the characteristics of the debt security[FN2]. If the debt security serves as collateral to the derivative counterparty, the reported debt security shall be coded as a restricted asset under *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*. The derivative shall be captured in scope of this statement, measured and classified pursuant to the guidance within and reported on Schedule DB.

New Footnote 1: This guidance applies to all debt securities with derivative components or wrappers but was incorporated in response to credit repack notes. With a credit repack, a debt security is combined with a derivative instrument at an SPV, with the reporting entity acquiring a new debt security ("repack") from the SPV reflecting the combined components. This structure can be viewed as advantageous over the separate acquisition of a derivative instrument as the debt security held in the structure serves as the sole source of collateral to the derivative counterparty, reducing potential liquidity concerns based on future market fluctuations. However, if this repack structure was collectively reported as a debt security, information on the use of derivatives would not be identifiable within the statutory financial statements. A repack note often has a reduced interest yield from the stated yield of the underlying debt security held in the structure to cover the fees of issuing the repack, as well as a revised NAIC designation/CRP rating that reflects the added risk of the SPV and derivative counterparty.

New Footnote 2: Assessment under the bond definition shall be based on the characteristics of the underlying debt security, but the issuer, investment yield, NAIC designation/CRP rating, as well as any other reported investment components, shall reflect the terms of the held (combined) investment and not the terms of the underlying security.

Proposed Revisions to SSAP No. 26—Bonds

4. This statement excludes:

   e. Replication (synthetic asset) transactions and debt security structures that have been combined with derivative components or wrappers addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86. Debt security structures combined with a derivative, such as a credit repack note that does not reflect a structured note, shall follow the guidance in SSAP No. 86 for bifurcation. After bifurcation, the underlying debt security is subject to the guidance in this statement in determining whether it qualifies for bond reporting.

Ref #2024-16

Proposed Revisions to Annual Statement Instructions:

Schedule D – Part 4 – Long Term Bonds and Stocks Sold, Redeemed or Otherwise Disposed Of During Current Year

This schedule should include a detailed listing of all securities that were sold/disposed of during the current reporting year that were owned as of the beginning of the current reporting year (amounts purchased and sold during the current reporting year are reported in detail on Schedule D, Part 5 and only in subtotal in Schedule D, Part 4). This should include all transactions that adjust the cost basis of the securities (except other-than-temporary impairments that are not part of a disposal transaction). ~~Thus, it~~This schedule should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or ~~other~~ situations ~~such as~~that only involve CUSIP number changes. The following list of items provides examples (not all inclusive) of the items that should be included:

Pay downs of securities still owned (including CMO prepayments);

Subsequent partial sales of investment issues still owned;

Sales of securities to an SPV or other entity for which a new instrument is reacquired from the SPV/entity reflecting a combined instrument containing the original security and derivative instruments or other components (such as a credit repack note). The sale shall be captured on this schedule (or Schedule D, Part 5 if the debt security was acquired in the current year), and the new security shall be reported on Schedule D, Part 3.

Reallocation of the cost basis of an already owned stock to the cost basis of a new stock received as a dividend (e.g., spin off); and

Any decreases in the investments in SCA companies that adjust the cost basis, not including other-than-temporary impairments alone (e.g., subsequent return of capital from investments in SCA companies valued using the equity method).

Schedule D – Part 5 – Long-Term Bonds and Stocks Acquired During the Year and Fully Disposed Of During Current Year

As with Schedule D, Parts 3 and 4, this schedule should ~~not~~ be used for ~~a~~ transactions ~~unless it~~that affects the cost basis of the securities. ~~Thus, it~~This schedule should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or ~~other~~ situations ~~such as~~ that only involve CUSIP number changes. Refer to the examples on Schedule D, Part 4 of transactions that should be captured.

Existing Guidance in SSAP No. 103, paragraph 52 – No Revisions Proposed:

With this existing guidance, debt securities sold and reacquired as a credit repack should not be considered to be substantially the same. This is because the credit repack is acquired from a new issuer, with a revised yield and with revised risks and rights (including revised NAIC designation/CRP rating) to reflect the derivative components / counterparty. Comments are requested on different interpretations and if edits are needed to ensure proper application of this guidance.

52. To be substantially the same, the financial asset that was transferred and the financial asset that is to be repurchased or redeemed need to have all of the following characteristics:

a. The same primary obligor (except for debt guaranteed by a sovereign government, central bank, government-sponsored enterprise or agency thereof, in which case the guarantor and the terms of the guarantee must be the same);

b. Identical form and type so as to provide the same risks and rights;

c. The same maturity (or in the case of mortgage-backed pass-through and pay-through securities similar remaining weighted-average maturities that result in approximately the same market yield);

d. Identical contractual interest rates;

e. Similar assets as collateral; and

f. The same aggregate unpaid principal amount or principal amounts within accepted "good delivery" standards for the type of security involved.

Staff Review Completed by: Julie Gann, NAIC Staff—June 2024

On August 13, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, classified as a new SAP concept, and exposed revisions to *SSAP No. 86--Derivatives,* as shown above, to require bifurcation of debt securities with derivative wrappers or components if the item does not reflect a structured note. The guidance details the accounting and reporting guidance for the bifurcated debt and derivative components. This item was exposed until September 27, 2024 to allow for discussion at the 2024 Fall National Meeting.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group elected to not proceed with the proposed edits to SSAP No. 86 to require bifurcation of debt securities with derivative wrappers or components. With this action, debt securities with derivative components that reflect structured notes will be retained in *SSAP No. 86—Derivatives*, and all other debt securities with derivative components and wrappers shall be assessed in accordance with the principles-based bond definition. Debt securities that do not qualify as bonds under the principles-based bond definition and shall be reported as non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets* and on Schedule BA. The Working Group did agree with proceeding with the clarifications in the investment disposal schedules, and the sponsoring of a blanks proposal, to ensure that a debt security sold to an SPV and reacquired with derivative components is shown as a disposal and an acquisition in the investment schedules. With the action that occurred on November 17, 2024, this agenda item is limited to the investment schedule revisions as shown below:

December 2024 Proposed Revisions to Annual Statement Instructions:

Schedule D – Part 4 – Long Term Bonds and Stocks Sold, Redeemed or Otherwise Disposed Of During Current Year

This schedule should include a detailed listing of all securities that were sold/disposed of during the current reporting year that were owned as of the beginning of the current reporting year (amounts purchased and sold during the current reporting year are reported in detail on Schedule D, Part 5 and only in subtotal in Schedule D, Part 4). This should include all transactions that adjust the cost basis of the securities (except other-than-temporary impairments that are not part of a disposal transaction). ~~Thus, it~~This schedule should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or ~~other~~ situations ~~such as~~that only involve CUSIP number changes. The following list of items provides examples (not all inclusive) of the items that should be included:

Pay downs of securities still owned (including CMO prepayments);

Subsequent partial sales of investment issues still owned;

Sales of securities to an SPV or other entity for which a new instrument is reacquired from the SPV/entity reflecting a combined instrument containing the original security and derivative instruments or other components (such as a credit repack note). The sale shall be captured on this schedule (or Schedule D, Part 5 if the debt security was acquired in the current year), and the new security shall be reported on Schedule D, Part 3.

Reallocation of the cost basis of an already owned stock to the cost basis of a new stock received as a dividend (e.g., spin off); and

Any decreases in the investments in SCA companies that adjust the cost basis, not including other-than-temporary impairments alone (e.g., subsequent return of capital from investments in SCA companies valued using the equity method).

Schedule D – Part 5 – Long-Term Bonds and Stocks Acquired During the Year and Fully Disposed Of During Current Year

As with Schedule D, Parts 3 and 4, this schedule should ~~not~~ be used for ~~a~~ transactions ~~unless it~~that affects the cost basis of the securities. ~~Thus, it~~This schedule should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or ~~other~~ situations ~~such as~~ that only involve CUSIP number changes. Refer to the examples on Schedule D, Part 4 of transactions that should be captured.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group exposed proposed annual statement instructions, as shown above under "December 2024 Proposed Revisions to Annual Statement Instructions" to clarify that held debt securities that are sold to an SPV and then reacquired reflecting the addition of derivative or other components shall be reported as a disposal and reacquisition in the investment schedules. With this exposure, the Blanks (E) Working Group will also proceed with exposing a blanks proposal sponsored by the Statutory Accounting Principles (E) Working Group at the 2024 Fall National Meeting.

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted this agenda item and indicated support for the Blanks (E) Working Group proposal to clarify the disposal and acquisition reporting, as shown above, for investments that are transferred to an SPV and then reacquired with derivative wrappers or components. This item did not result in any SSAP revisions.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A1-24-16 - Repacks and Derivative Wrapper Investments.docx

Ref #2024-22

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

Issue: ASU 2024-01, Scope Application of Profits Interest and Similar Awards

Check (applicable entity):

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

Description of Issue: In March 2024, FASB issued *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards,* which includes amendments to Topics 718 to provide clarifications on the application of guidance on stock compensation in the form of profits interest. The primary changes made were the creation of application examples and amendments to certain language in the Scope and Scope Exceptions Section of Topic 718 to improve clarity and operability without changing the guidance.

Because profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation—General, or other Topics).

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in *SSAP No. 104—Share-Based Payments*. Statutory accounting modifications to the U.S. GAAP guidance have mostly pertained to statutory terms and concepts. (For example, statutory reporting lines, nonadmittance of prepaid assets, etc.)

Existing Authoritative Literature:
Stock compensation is addressed by *SSAP No. 104—Share-Based Payments* and *SSAP No. 95—Nonmonetary Transactions*.

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 2018-35 adopted with modification *ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting* and incorporated the U.S. GAAP amendments from that ASU into SAP.

Agenda items 2016-19 and 2017-37 address the main ASUs related to *ASC Topic 606 Contracts with Customers* and there have been several other agenda items for minor updates to revenue recognition guidance, which have been rejected *in SSAP No. 47—Uninsured Plans*.

Agenda item 2023-07 addressed *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*, which was adopted with modification in 2023 to SSAP Nos. 47, 95, and 104.

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

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Ref #2024-22

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

Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*. The proposed revisions to SSAP No. 104 are illustrated below.

Proposed Revisions* to *SSAP No. 104—Share-Based Payments

Scope and Scope Exceptions

4. This statement applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations or provides consideration payable to a customer by either of the following:

a. Issuing (or offering to issue) its shares, share options, or other equity instruments to an employee or nonemployee. ~~or by~~

~~a.~~b. Incurring liabilities to an employee or nonemployee that meet either of the following conditions:

i. The amounts are based, at least in part[1], on the price of the entity's shares or other equity instruments.

ii. The awards require or may require settlement by issuing the entity's equity shares or other equity instruments.

5. Share-based payments awarded to a grantee by a related party or other holder of an economic interest in the entity as compensation for goods or services provided to the reporting entity are share-based payment transactions to be accounted for under this statement unless the transfer is clearly for a purpose other than compensation for goods or services to the reporting entity. The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to the grantee in exchange for services rendered or goods received. An example of a situation in which such a transfer is not compensation is a transfer to settle an obligation of the economic interest holder to the grantee that is unrelated to goods or services to be used or consumed in a grantor's own operations. Reporting entities which issue profits interest or similar awards as compensation to either employees and nonemployees in exchange for goods or services shall apply the guidance in paragraph 4 in determining whether the award is a share-based payment transaction and in scope of this statement.

NAIC Drafting Note: Some of the relevant guidance added by ASU 2024-01 is included in illustrative examples. As SSAP No. 104 does not have illustrative examples, NAIC Staff drafted language (see tracked changes immediately above) using the guidance provided in the ASU illustrative examples and commentary.

[1] The phrase "at least in part" is used as an award of share-based compensation may be indexed to both the price of an entity's shares and something else that is neither the price of the entity's shares nor a market, performance, or service condition.

Relevant Literature

127. This statement adopts with modification the U.S. GAAP guidance for share-based payment transactions reflected in FASB *Accounting Standards Codification (ASC) Topic 718, Compensation – Stock Compensation*, as modified by the ASUs listed in paragraphs 127.a. through 127.e., excluding the guidance in *ASC Subtopic 718-40, Employee Stock Ownership Plans* (ESOPs). Statutory accounting guidance for ESOPs is addressed in *SSAP No. 12—Employee Stock Ownership Plans*. This adoption with modification includes the related implementation guidance reflected within the FASB Codification Topic 718 not reflected within this standard. The U.S. GAAP guidance adopted with modification reflects the adoption with modification of the following ASUs:

a. *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards*. The statutory modification did not incorporate the application examples and added additional language to clarify that profits interest and similar awards need to be considered under this statement.

~~a.~~b. *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer.*

~~b.~~c. *ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting*. The revisions from ASU 2018-07 expand the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from nonemployees. With ASU 2018-17, *ASC 505-50, Equity – Equity Payments to Nonemployees* was superseded.

~~c.~~d. *ASU 2017-09, Scope of Modification Accounting*

~~d.~~e. *ASU 2016-09, Improvements to Employee Share-Based Payment Accounting*

~~e.~~f. *ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*

~~f.~~g. *ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Current of the Market in Which the Underlying Equity Security Trades*

Effective Date and Transition

132. Since the initial adoption of SSAP No. 104, subsequent revisions were effective as follows:

a. *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* was adopted with modifications. This SAP clarification is effective December 31, 2025.

~~a.~~b. *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*. The SAP clarification is effective August 10, 2022.

Staff Review Completed by:
NAIC Staff – William Oden, September 2024

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed revisions, as shown above, to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*.

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Ref #2024-22

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted as final SAP clarification revisions to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A2-24-22 - ASU 2024-01 - Scope Application of Profits Interest and Similar Awards.docx

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Ref #2024-25

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

Issue: SSAP No. 16 Clarifications

Check (applicable entity):

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

Description of Issue: NAIC staff were contacted about a question related to *SSAP No. 16—Electronic Data Processing Equipment and Software*. While working on the issue, staff noted several instances in the SSAP where the FASB ASC Topic has been referenced directly instead of the ASU. When guidance is adopted by FASB, it is issued through an accounting standards update which formally adopts the guidance into the FASB Accounting Codification. The Working Group will then address the guidance in the ASU, which is the guidance at a moment in time instead of the actual ASC, which represents guidance that will change over time as other ASUs are adopted. As the guidance stands now, a new ASU could be issues that impacts the ASC sections that are referenced in the SSAP, thereby changing statutory accounting guidance without the Working Group addressing and considering the issue.

Existing Authoritative Literature: There are multiple instances that need to be addressed in SSAP No. 16, which are detailed below in the Staff Recommendation.

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 *SSAP No. 16—Electronic Data Processing Equipment and Software*, to include proper references to the specific FASB ASU or SOP when not specifically referenced in the SSAP, as illustrated below.

8. This statement adopts with modification FASB Codification 985-20, Software - Costs of Software to be Sold, Leased or Marketed (ASC 985-20), as revised by *ASU 2009-14, Certain Revenue Arrangements That Include Software Elements*, to preclude the capitalization of software development costs and to reject guidance regarding the treatment of capitalized costs. Additionally, this statement rejects FASB Codification 985-330, Software - Inventory (ASC 985-330). Statutory modifications to ASC 985-20 and rejection of ASC 985-330 precludes capitalization of costs, and requires such costs to be expensed, for:

10. This statement adopts with modification *FASB Accounting Standards Codification (ASC) 350-40, Internal Use Software* (ASC 350-40), as originally adopted as part of SOP 98-1, as described in this statement. (This adoption reflects adjustments to ASC 350-40 from *ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*.) This statement also adopts *FASB Accounting Standards Codification 350-50, Website Development Costs* (ASC 350-50) in its entirety.

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Ref #2024-25

13. For hosting arrangements that are service contracts, reporting entities shall account for the contract as follows:

a. The reporting entity shall capitalize implementation costs of the hosting arrangement (the costs incurred to implement the cloud hosting service contract), as nonoperating system software. The capitalized costs shall be consistent with the costs which are permitted to be capitalized for internal use software and shall be reported as a nonadmitted asset. These implementation costs shall be recognized as each module or component of the hosting arrangement is ready for its intended use.

b. The implementation costs shall be amortized over the lesser of the term of the hosting arrangement, or five years. (This statement adopts the provisions in ASC 350-40-35-13 through ASC 350-40-35-17, as originally adopted with modification as part of SOP 98-1, for determining the term of the hosting arrangement and for when amortization shall begin.) The amortization cost shall be recognized as depreciation of the nonoperating system software. (This is a modification from U.S. GAAP as the amortization is not recognized in the same expense line as the service contract lease.)

Staff Review Completed by: Jake Stultz—NAIC Staff

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC).

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted as final SAP clarification revisions to SSAP No. 16 to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC).

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A3-24-25 - SSAP 16 Clarifications.docx

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Ref #2022-14

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

Issue: New Market Tax Credits

Check (applicable entity):

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

Description of Issue: The New Market Tax Credits (NMTC) Program was established by Congress in December 2000 and permits individual and corporate taxpayers to receive a non-refundable tax credit against federal income taxes for making equity investments in financial intermediaries known as Community Development Entities (CDEs). CDEs that receive the tax credit allocation authority under the program are domestic corporations or partnerships that provide loans, investments, or financial counseling in low-income urban and rural communities. The tax credit provided to the investors total 39% of the total cost of the investment and is claimed over a seven-year period. The CDEs in turn use the capital raised to make investments in low-income communities. CDEs must apply annually to the CDFI Fund to compete for NMTC allocation authority. The NMTC program is currently subject to expiration but has been extended to Dec. 31, 2025. The NMTC Extension Act of 2021 (introduced February 2021) would make the NMTC program permanent, modify the credit to provide for an inflation adjustment to the limitation amount for the credit after 2021, and allow an offset against the alternative minimum tax for the credit.

The success of the federal NMTC program has led to states adopting their own NMTC legislation. Per one noted article, the majority of state NMTC programs follow the federal rules with some modifications that vary from state to state. State modifications have been noted to specifically target smaller businesses, simplifying the application process, prohibiting the use of real estate business, and capping the amount of tax credits that can be allocated to one project. The economic impact of the state NMTC programs is typically less than the impact of federal NMTC programs because the economic return to investors for state tax credits is generally lower than what they receive for federal credits. Some states require that state tax credits can only be used in conjunction with federal credits. Pairing federal and state programs is beneficial to the qualifying business as they keep more of the investment without an obligation to return as the investors receives more tax credits.

Overview of Federal Program:

- Federal government authorizes an annual credit authority for NMTCs (amount of tax credits available).

- The Community Development Fund Institutions (CDFI fund) is a division of the U.S. Treasury responsible for implementing the NMTC program. Since there are limited tax credits each year, the CDFI fund has a competitive application process for the right to grant tax credits to investors and to make qualified NMTC investments.

- The right to grant tax credits is referred to as "NMTC Allocation" and is awarded to Community Development Entities (CDEs) that invest in low-income communities. The CDEs offer the tax credits to cash investors, and then use the cash to make investments (typically loans to a qualifying project – a "Qualifying Active Low-Income Community Business" - QALICB) that further the mission and objectives of the NMTC program.

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- The program specifies that the investor must provide cash as an equity investment (qualified equity investment – QEI) and it must stay invested in the CDE and the resulting NMTC qualifying project (QALICB) for a period of seven years.

    - The restrictions are specific that the investment is an equity investment as stock (other than nonqualified preferred) in an entity that is a corporation for federal tax purposes or any capital interest in an entity that is a partnership for federal tax purposes. (The investor is generally a 99.99% or 100% equity owner.)

- NMTC investments must remain in a qualified business for a seven-year period. Any principal amount repaid during that period must be reinvested by the CDE until the seven-year period expires. Most CDEs and investors avoid the reinvestment requirement and structure interest-only loans that prohibit principal repayment within the seven-year timeframe.

    - The 39% tax credit is provided as 5% of the investment in the first 3 years and then 6% of the investment for the next 4 years.

    - For tax purposes, the basis adjustment in the qualified equity investment is reduced by the amount of any new market tax credits on each credit allowance date.

    - Programs that cease to qualify are subject to tax credit recapture.

- Investors enter these transactions recognizing that the original investment amount will not be fully returned. Rather, a portion (or perhaps all) of the equity investment will be unpaid without an obligation to return from the borrowing business. NMTC investments with these terms have specific maturing terms / actions. One approach could be that an option (put/call) is held by the investor that gives them the right to sell its equity investment to the borrower for a nominal price.

- The designs are often complex and introduce leverage lenders to maximize tax credits to the equity investor:
    - Equity investor provides $3M to acquire 100% equity interest in an investment fund.
    - Investment fund borrows $7M from a leverage lender.
    - This results with a $10M qualifying NMTC transaction, resulting with the equity investor receiving $3.9M in tax credits over 7 years from an initial $3M investment.
    - The investment fund provides two loans to the qualified low-income business (QALICB). The first loan is for the $7M leverage loan, the second is for the $3M equity investment.
    - Both loans only pay interest for the seven-year period to meet the NMTC terms.
    - At the conclusion of the 7 years, the project sponsor purchases the second loan via a ‘put/call’ agreement, converting the $3M into a permanent subsidiary for the project.
    - The borrower / project sponsor refinances the $7M loan to repay the leverage lender.
    - The ultimate result is that the equity investor received $3.9M over 7 years in tax credits for $3M.

- Example without leverage lender:
    - Investor provides a $10M NMTC Investment
    - Investor receives $3.9M in tax credits over seven years.
    - Investor receives $7.4M of original investment at the end of the seven years.

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- Borrower keeps $2.6M of the original investment to further their low-income qualifying activities.
- Investor receives a net return of $1.3M. ($10M less $3.9M tax credits less return of 7.4M principal.)

FASB Discussion
The FASB has a current Emerging Issues Task Force project to assess whether the proportional amortization method of accounting, which is used for Low-Income Housing Tax Credits (LIHTC), should be expanded to investments in tax credit structures beyond LIHTC. The proportional amortization method results in the tax credit investment being amortized in proportion to the allocation of tax credits in each period and allows the investment amortization and tax credits to be presented on a net basis within the income tax line item. Currently, investments in other tax credit structures are typically accounted for using the equity method or the cost method. Under the equity and cost methods, investment gains/losses and tax credits are presented on a gross basis on an entity's income statement. The FASB has received two requests asking that the proportional amortization method be made applicable to New Market Tax Credit Structures as well as other investment structures that are made primarily for the purpose of receiving tax credits and other tax benefits. The FASB added a project to the Emerging Issues Task Force agenda on Sept. 22, 2021. The FASB Task Force reached a consensus-for-exposure on June 16, 2022, that the proportional amortization method can be elected on a tax credit program by tax credit program basis. This proposed ASU was exposed in August 2022, with comments due Oct. 6, 2022. A final ASU is expected later in 2022 or early in 2023 (ASU 2023-02 was issued in March of 2023).

IRS Provisions – The NMTC is captured as a nonrefundable 'general business credit' and is limited to tax liability. If tax liability is not sufficient to take the credit, then the tax credit is subject to carryforward / carryback provisions. Per instructions from the *2021 Instructions for Form 3800 – General Business Credit*, general business credits that cannot be used because of a tax liability limit are first carried-back 1 year through an amended return. If there are unused credits after carrying back 1 year, the tax credit can be carried forward to each of the 20 tax years after the year of the credit.

Inflation Reduction Act Provisions – The Inflation Reduction Act was signed by President Biden on Aug. 16, 2022. Although there are several elements within the Act, it includes a 15% corporate minimum tax rate for corporations with at least $1 billion in income and includes numerous investments in climate protection, clean energy production and tax credits aimed at reducing carbon emissions. Although the Act has been signed, several elements are pending further application guidance. From preliminary information, the act allows for general business credits, such as the low-income housing tax credit (LIHTC), new markets tax credit (NMTC), historic tax credit (HTC) and renewable energy tax credits (RETCs) to be taken against the minimum tax. **However, further monitoring of application / interpretation guidance that is still forthcoming is required to assess the actual application and impact of tax credits on companies subject to the minimum tax.**

Statutory Accounting Considerations:

- Although the design is an equity investment of stock or interest in a corporation or partnership, which would normally be subject to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, the intent of NMTC investments is for tax credits and not equity returns. As such, this structure is closer to the existing low-income housing tax credits guidance in SSAP No. 93 than the partnership / LLC guidance in SSAP No. 48.

- Although *SSAP No. 93—Low Income Housing Tax Credit Property Investments* provides guidance for an equity investment, that provides tax credits with a limited (or zero) residual investment value, the guidance in SSAP No. 93 is specific to LIHTC programs.

- It has been identified that there are structures that have been designed to resemble fixed-income notes that do not pay regular cash interest, but rather provide NMTC tax credits as interest returns. These structures are in substance that same as other investments in NMTC, with an underlying equity interest in the CDE that generates tax credits. However, they have been structured with a guarantee for compensatory interest in the form of cash for the amount of the tax credit expected to have been received that year. These structures are also being considered within scope of this agenda item. Such structures have to meet specific criteria to qualify for tax credits under the IRS rules.

Existing Authoritative Literature:

SSAP Authoritative Guidance:

- **SSAP No. 93—Low Income Housing Tax Credit Property Investments**
  This statement establishes accounting principles for investments in federal certain state sponsored Low Income Housing Tax Credit (LIHTC) properties owned through limited liability entities that are flow-through entities for tax purposes. The guidance requires LIHTC investments to be initially recorded at cost and carried at proportional amortized cost unless the investment is identified as impaired. Under the proportional amortization method, amortization of the LLC investment is recognized in the income statement as a component of net investment income/expense and the current tax credit is accounted for as a component of income tax expense:

    - Federal tax credits are recognized in the income statement as an offset to federal taxes in the tax reporting year in which the tax credit is utilized in accordance with *SSAP No. 101—Income Taxes*.

    - State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized.

    - Tax benefits received, other than tax credits, shall be accounted for pursuant to SSAP No. 101.

    SSAP No. 93 indicates that immediate recognition of the entire benefit of the tax credit to be received during the term of the investment in a low-income housing project is not appropriate. It also indicates that low-income housing tax credits shall not be recognized in the financial statements before their inclusion in the investor's tax return.

- **SSAP No. 94R—Transferable and Non-Transferable State Tax Credits**
  This statement establishes accounting principles for investments transferable and non-transferable state tax credits, with an explicit exclusion for LIHTCs (or similar tax credits) captured in scope of SSAP No. 93.

    Guidance for admittance of state tax credits under this statement varies based on whether it is transferable or non-transferable:

    Transferable – Per the SSAP, all the following criteria must be met for admittance:

    1) The holder of the transferable state tax credit may sell or otherwise transfer the transferable state tax credit to another entity, which can likewise sell or transfer the credit;
    2) The transferable state tax credit will expire is not used by a predetermined date; and
    3) The transferable state tax credit can be applied against either state income tax or state premium tax.

Non-Transferable – Per the SSAP, all the following criteria must be met for admittance:

1) Successive holder of a state tax credit must redeem the credit by April 15 of the subsequent year to the entity's acquisition of the state tax credit and is not permitted to carry-over, carry-back, obtain a refund, sell or assign the credit;
2) The non-transferable state tax credit will expire if not used by the predetermined date; and
3) The non-transferable state tax credits can be applied against either state income tax or state premium tax.

Review of Existing Statutory Accounting Guidance for NMTC and Overall Application:

- Existing statutory accounting guidance does not encompass federal NMTC (or other federal tax credits), as SSAP No. 93 is limited to LIHTC and SSAP No. 94 is specific to state tax credits.
- Provisions in SSAP No. 93 do not fully address earned (received) tax credits that carryforward for future use.
- The admittance criteria in SSAP No. 94 are applied to characteristics that perhaps may not be factors that would impact admittance:
    - A tax credit that does not expire would be precluded as an admitted asset under the guidance.
    - A non-transferable tax credit that can be carried-forward, carried-back, able to be refunded or that can be sold or assigned is precluded as an admitted asset under the guidance.

Statutory Accounting Reporting Guidance:

Guaranteed and non-guaranteed federal low-income housing tax credits have separate reporting lines on Schedule BA along with an "all other" low-income housing tax credit line. The guidance is specific that these lines are only for low-income tax credits (or tax credits for affordable housing) that are in the form of a partnership or limited liability company. Non-qualifying LIHTC are to be reported in the "All Other" category. With this current guidance, there is no explicit reporting provision for tax credits that are not captured in LIHTC.

Reporting Lines and Instructions:

Guaranteed Federal Low Income Housing Tax Credit
Unaffiliated 3599999
Affiliated 3699999

Non-Guaranteed Federal Low Income Housing Tax Credit
Unaffiliated 3799999
Affiliated 3899999

Guaranteed State Low Income Housing Tax Credit
Unaffiliated 3999999
Affiliated 4099999

Non-Guaranteed State Low Income Housing Tax Credit
Unaffiliated 4199999
Affiliated 4299999

All Other Low Income Housing Tax Credit
Unaffiliated 4399999
Affiliated 4499999

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Low Income Housing Tax Credit

Include: All Low-Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company including those investments that have the following risk mitigation factors:

A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.

B. Non-guaranteed Low Income Housing Tax Credit Investments.

I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.

II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.

III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the "All Other" category.

Statutory Accounting RBC Impact:

Life: The RBC factors for LIHTC are captured as part of the real estate on LR007:

(17)	Federal Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 75	0.0014
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 76	0.0260
(19)	State Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 77	0.0014
(20)	State Non-Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 78	0.0260
(21)	All Other Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 79	0.1500
(22)	Total Schedule BA Real Estate	Lines (16) + (17) + (18) + (19) + (20) + (21)	

P/C and Health: The RBC factors for LIHTC are captured as components of other long-term assets. The reporting lines and factors are the same as they are for life (as shown above).

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): NA

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Recommendation:
NAIC staff recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Staff also recommends that the Working Group expose changes to *SSAP No. 34—Investment Income Due and Accrued* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, which detail miscellaneous changes which update the scope of each statement for the proposed updates to SSAP No. 93 and SSAP No. 94R. The following are key revisions to SSAP No. 93R and 94R are proposed for exposure:

- *SSAP No. 93R—Investments in Tax Credit Structures* – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
  - Various editorial changes to the admittance test described in paragraph 18 to clarify technical aspects of the assessment.
  - Addition of a Glossary of key terms at the end of the SSAP.
  - Revised guidance effective date to be 1/1/2025, applied prospectively without option to early adopt.
  - Added a new paragraph to the Impairment of Tax Credit Investments section to provide guidance on tax credit programs which allocate variable amounts of tax credits.
  - Clarified in footnote 4 that tax credit strips derived from tax equity investments are not an example of an investment structure exempt from the audit requirement.
  - Added disclosures for unused tax credits allocated from tax credit investments as these tax credits would not be within the scope of SSAP No. 94R disclosures.

- *SSAP No. 94R—State and Federal Tax Credits* – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
  - Revised guidance effective date to be 1/1/2025 with early adoption permitted.
  - Added language to clarify that awarded tax credits (neither purchased nor allocated from an investment) are not within the scope of SSAP No. 94R.
  - Added commitment and contingency guidance to the Accounting and Disclosure sections.

- Other SSAPs – In response to the proposed revisions to SSAP Nos 93 and 94R, NAIC staff recommends the following:
  - *SSAP No. 34—Investment Income Due and Accrued* – Staff proposes revisions to clarify that tax credits earned or purchased are not within the scope of SSAP No. 34.
  - *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* – Staff proposes revisions which update paragraph 2 for the new tax credit investment language.

Interested parties' comment letter recommended revisions which would narrow the scope of the paragraph 18 admittance test to only tax credit investments which allocate non-transferable tax credit and prohibit the sale of ownership interests. NAIC staff did not revise the SSAP No. 93R draft for these recommendations but intends to continue working with industry to address their concerns that the new guidance may nonadmit previously admitted tax credit investments.

Additionally, NAIC staff requests comments on the annual statement reporting categories for tax credit investment RBC. The current RBC categories are LIHTC Investment specific and are mapped to the real estate grouping.

Staff Review Completed by: William Oden and Julie Gann - NAIC Staff, May 2023

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Status:
December 13, 2022 - Fall National Meeting Recommendation:
NAIC staff recommends that the Working Group direct NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits. Although this agenda item is focusing on NMTC, it is recommended that consideration be given to guidance that does not name specific designs, such as NMTC or other specific tax credits, so that it can be applicable for all qualifying tax equity investments. This guidance will consider the proposed FASB guidance as well as admittance and impairment provisions, recognizing that tax credits cannot be used to provide direct payment to policyholders, but rather are utilized to impact a reporting entity's tax liability. This agenda item also recommends a review of SSAP No. 94—Transferable and Non-Transferable State Tax Credits to ensure the guidance properly reflects items that should be captured in scope and appropriate admittance provisions. With the proposal of a new or revised SSAP, this agenda item is proposed to be captured as a 'New SAP Concept' with a corresponding issue paper. Along with statutory accounting revisions, a resulting blanks proposal and a potential RBC referral are anticipated to update blanks reporting and RBC references accordingly. As detailed within, all Schedule BA reporting lines and RBC instructions (for both federal and state) only reference Low-Income Housing Tax Credits. The BA instructions also need to be updated as the concept for 'guaranteed' provisions from a CRP-rated entity seems to only be applicable to limited NMTC designs, as a guarantee may disqualify an entity from being able to use tax credits under IRS provisions.

On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed a discussion document to expand current statutory accounting guidance for low-income housing tax credits to capture all tax equity investments that provide general federal business tax credit and state premium tax credits if they meet specified criteria.

On February 10, 2023, NAIC staff received interested parties' comment letter on the exposed discussion document which were presented to the Working Group:

> Interested parties agree with having uniformity in accounting and reporting for equity investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. We are providing responses to the questions exposed in the Discussion Paper in this document. There are two key take aways from our responses:
>
> 1. Interested parties ask the Working Group to consider allowing for the reporting of both the amortization of the investments and the use of the tax credits themselves in the same income statement line similar to what is required under U.S. GAAP.
>
> 2. Interested parties have concerns regarding tax credit investments that are issued in debt form and requiring those investments to be reported on Schedule BA instead of Schedule D. Interested parties believe that tax credit investments issued in debt form are better suited for Schedule D reporting.

March 22, 2023 – Spring National Meeting Recommendation:
NAIC staff recommends that the Working Group direct NAIC staff to proceed with drafting revised statutory accounting guidance and a related issue paper to expand the guidance in SSAP No. 93 for tax credits, as well as to draft revisions to SSAP No. 94—Transferable and Non-Transferable State Tax Credits for future Working Group discussion. NAIC staff proposes to consider the feedback from interested parties on the discussion document as well as the revised FASB guidance, which is expected to be issued in the near future, in updating the proposed revised statutory accounting guidance for subsequent exposure consideration.

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Ref #2022-14

On March 22, 2023, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits.

May 16, 2023 – Interim Meeting Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose the draft revisions to SSAP No. 93 and SSAP No. 94R, which intend to capture all tax equity investments that provide federal business tax credit and state premium tax credits if they meet specified criteria.

On May 16, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 93 and 94R. The revisions to SSAP No. 93 propose adoption with modification of *ASU 2023-02–Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* and expansion of the SSAP scope to include all tax credit programs and tax investment structures. The revisions to SSAP No. 94R expand the scope of the SSAP to include all state and federal tax credits whether purchased or allocated, and that tax received should be recorded at face value with losses realized immediately and gains deferred.

On June 20, 2023, NAIC staff received interested parties' comment letter on the exposed revisions to SSAP Nos. 93 and 94R. Interested parties provided several comments on both SSAPs which are summarized below along with NAIC Staff responses.

The comments provided on SSAP No. 93 were:

1. Interested parties noted that paragraph 3 does not provide specific direction for which SSAPs would be applicable for tax credit investment which do not fall within SSAP No. 93.
    a. NAIC Staff agreed with the recommendation and updated paragraph 3 to provide readers with specific SSAPs which could apply to non-qualifying equity or debt structure tax credit investments.
2. Interested parties noted that the current draft directed readers to refer to SSAP 94R for how to account for tax credits allocated from tax credit investments. They felt that this cross-reference was confusing and could potentially lead to conflicting interpretations.
    a. To reduce confusion, NAIC Staff opted to remove the paragraph directing readers to SSAP 94R and instead pulled in the specific paragraphs from SSAP 94R which would be applicable to tax credits allocated from tax credit investments.
3. Interest parties noted that they were unclear on whether the tax credits earned, or the tax credit investments were subject to the admittance criteria detailed in Paragraphs 18(a)-(c). Interested parties feel that admissibility concerns are adequately addressed by the tax opinion and audit requirements. Additionally, if NAIC Staff's concern is the admittance of tax credits carried forward to a future period, then this should be adequately addressed by the admittance rules detailed in *SSAP No. 101–Income Taxes* for Deferred Tax Assets. Interested parties suggested that paragraphs 18(a)-(c) be deleted in full.
    a. NAIC Staff noted that the admittance rules detailed in paragraphs 18(a)-(c) do NOT provide guidance on the admittance of allocated tax credits. For tax credit investment structures to fall within the scope of SSAP 93, substantially all benefits must be from tax credits or other tax benefits which essentially means that balance of a tax credit investment represents a future stream of tax credits and tax benefit. As such, the admittance rules in paragraph 18(a)-(c) would require a company to assess its ability to utilize that future stream of tax credits to what amount of the tax credit investment would be non-admitted. If the company's projections determine it will be unable to substantially utilize the future stream of tax credits (i.e., the tax credit investment balance) then potentially all or a portion of the tax credit investment would be considered non-admitted as the company is unable to utilize the future stream of tax credits to offset tax liabilities.
4. Interested parties noted that GAAP requires retrospective adoption of ASU 2023-02 and that this would result in GAAP vs. Statutory accounting differences.

a. NAIC Staff noted that prospective adoptions of accounting updates are often simpler to implement than retrospective adoptions. However, since this would lead to unintended variance between GAAP and Stat NAIC Staff has updated SSAP 93 to be adopted on the retrospective basis to conform with the GAAP adoption requirements.

The comments provided on SSAP No. 94R were:

1. Interested parties requested that paragraph 1 of the scope of statement section be amended to clarify which types of tax credits are within scope of SSAP No. 94R. Interested parties feel that the key difference between SSAP 94R and SSAP 93 is that the former is for purchased tax credits and the ladder is for tax credits earned from investments.
    a. NAIC Staff generally agree with the comments provided but opted to remove the term "certificate" from the requested changes. The intent of SSAP No. 94R is to provide guidance on all purchased state and federal tax credits, not just certificated tax credits. NAIC Staff also included language to clarify the scope of SSAP No. 94R for allocated tax credits, as detailed in the next bullet point.
2. Interested parties noted that they do not believe allocated tax credits from SSAP No. 93 investments should be within the scope of SSAP No. 94R as the guidance was confusing and could potentially lead to conflicting interpretations. Additionally, interested parties believe that tax credits from investments vs. purchased tax credits are distinctly different assets. The only similarity in accounting for the tax credits relates to instances when the credits earned under a SSAP No. 93 investment cannot be utilized in the current year. Under that scenario, a DTA would be recorded, which would be subject to the admissibility rules under SSAP No. 101.
    a. NAIC Staff elected to remove tax credits allocated from SSAP No. 93 investments from the scope of SSAP No. 94R to avoid confusion. However, NAIC Staff note that tax credits earned from investments bear many similarities to purchased tax credits. Irrespective of how the tax credit are acquired, they represent the same type of financial instruments which can be utilized as an offset to tax liabilities, sold, or redeemed for cash as a tax refund. Additionally, irrespective of how the tax credits are earned they are recorded at face value upon acquisition. The only significant difference is that tax credits purchased at a premium or discount may result in a recognized loss or deferred gain, respectively, whereas any premium or discount on an allocated tax credit is recognized as part of proportional amortization calculation.
    b. NAIC Staff amended the draft to exclude tax credits allocated from SSAP No. 93 investments in response to the interested party comments on SSAP No. 93. However, NAIC Staff did include language noting that allocated tax credits earned from tax credit investments NOT within the scope of SSAP No. 93 should refer to SSAP 94R for guidance on how to record allocated tax credits. NAIC staff noted that without this language there would be no guidance within the *Accounting Practices and Procedures Manual* for allocated tax credits from investments which fall outside the scope of SSAP No. 93.
3. Interested parties noted that most tax certificates reduce a reporting entity's tax liability and do not directly impact the income statement at the time they are used. In addition, interested parties believe that upon purchase, the tax credits should be reported as an other-than-invested asset since the asset represents a right to receive future benefits. As the tax credits become available for use, a reduction to the insurer's income tax payable or premium/state taxes payable should take place.
    a. NAIC Staff disagrees with this proposed change as purchased federal tax credits would be reported as other-than-invested assets, versus allocated federal tax credits which would report as a deferred tax asset. This would result in the same type of asset being reported on two separate lines based on the manner in which it was acquired. As noted above, NAIC Staff's position is that allocated and purchased tax credits are substantially the same assets irrespective of the way in which they are acquired. Additionally, interested parties also propose that if a tax credit cannot be utilized in the same period in which it was purchased it should be transferred to Deferred Tax Assets. NAIC Staff

notes that this does not resolve the short-term reporting discrepancy noted previously and adds further complications to the accounting process by requiring a reporting line transfer if the asset is held for longer than a year.

4. Interested parties noted that the accounting for purchased tax credits in the SSAP No. 94R exposure is different from the current guidance in that the credits will be recorded at face value instead of at cost. This is not an issue perse but interested parties did want to point out this discrepancy as compared to the accounting treatment for other assets like bonds and mortgage loans.
    a. NAIC Staff's position is that tax credits, whether received via purchase or allocation, do not represent investments, and has opted to propose accounting guidance that differs from bonds or mortgage loans. The position that tax credits do not represent investments was the main reason for the original SSAP No. 94R guidance which required state tax credits be recorded to Other Than Invested Assets and effectively required companies tax credits purchased at a discount at cost and effectively defer the gain off the balance sheet. NAIC Staff felt that it would be less confusing and provide a more accurate financial picture to record the tax credit at face value and defer any gains from discount purchases on the balance sheet.
5. Interested parties proposed changes to Exhibit B to reflect a pro-rata utilization of purchased tax credits in relation to the quarterly accrual of income tax liabilities. The main purpose of these changes were to reflect Interested parties' proposed changes in item #2.
    a. NAIC Staff made these changes to Exhibit B and believe that this method of recognizing tax credit utilization is applicable to exposed draft of SSAP No. 94R.

Outside of the changes made in response to the interested parties' comment letter, both Exhibits in SSAP No. 93 were revised to provide example journal entries of the Proportional Amortization method. Additionally, the assumptions in Exhibit B were revised so it would provide a journal entry example for a residual sale at the end of the proportional amortization period. A new footnote was also added to SSAP No. 94R on page 2 based verbal comments received from the public. The new footnote provides clarification on what processes constitute a purchase vs an allocation of tax credits.

August 13, 2023 - Summer National Meeting Recommendation:
NAIC staff recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Additionally, NAIC staff recognizes that revisions to the annual statement Schedule BA reporting lines will need to be considered, as well as how those reporting lines flow through to the AVR. NAIC staff recommends that the Working Group direct staff to work with interested parties throughout the interim to discuss to allow subsequent (or interim) exposure.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R. Additionally, the Working Group directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

On September 29, 2023, NAIC received interested parties' comment letter on the exposed revisions to SSAP No. 93 and 94R. Interested parties provided several comments on both SSAPs which are summarized below along with NAIC Staff responses (effective October 11, 2023). The comments provided on SSAP No. 93 are below and have been summarized for brevity and clarity:

1) Interested parties noted that SSAP 93 Paragraph 18 requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. However, interested parties suggest that this admittance criteria only be applicable to investments which do not allocate transferable or refundable tax credit and if the reporting entity is contractually restricted from

selling its ownership interest. Additionally, interested parties suggest deleting paragraphs 18a and 18b as admissibility is adequately addressed through the impairment analysis required in paragraph 25; mainly that since both the tax credits and investment are saleable there is not a significant concern about the reporting entity's ability to utilize these investments and their tax credit returns for policyholder liabilities.

i. NAIC staff noted that interested parties' argument is twofold, first is that the usage of the investment fair value as a carve out in paragraphs 18.a. and 18.b. are confusing due to the requirement to test for impairment based on fair value. NAIC staff amended paragraph 18a to clarify that the carve out allows for admittance of the fair value of unallocated transferable/certificated tax credits rather than the fair value of the tax credit investment. The tax credit investment balance includes other tax benefits which cannot be sold apart from the investment ownership. The intent of paragraph 18a is to allow a reporting entity to at least admit the fair value of the tax credits which can be sold, which is potentially higher than the admitted amount calculated in paragraph 18.

ii. The second part of interested parties' argument is that since these investments may be sold, the admittance assessment of the reporting entity's ability to utilize the tax credits is not needed unless the reporting entity contractually restricted from the selling the investment. As part of this comment, it was noted that these investments may be actively managed and are readily saleable. NAIC staff noted that acquiring tax credit investments with the intent of re-sale puts an insurance company in a similar position as a syndicator in which tax credit investments are developed or acquired for the purpose of sale. SSAP 93 was revised under the assumption that tax credit investments are acquired for the purpose of obtaining returns through the receipt of tax credits and other tax benefits rather than through the sale of the tax credit investment. NAIC staff does not believe the paragraph 18 admittance criteria should be amended to provide a carve out for actively managed tax credit investments as it is not feasible to delineate between tax credit investments purchased for sale vs. purchased for generation of tax benefits without introducing some kind of available-for-sale and held-to-maturity framework which is not compatible with statutory accounting concepts. NAIC staff noted that restrictions which prevent investors from selling their ownership represent a minority of tax credit programs. As such, limiting the scope of paragraph 18 to only tax credit investments which cannot be sold would effectively carve out the majority of tax credit investment structures from its scope. Additionally, the assertion that these investments are readily saleable does not change the fact that the balance sheet value of a tax credit investment is predicated on the assumption that the company can use the tax credits and benefits and if they company cannot use these tax credits then the investment returns have no value. Until the investment has been sold, its ability to satisfy future policyholder obligations is beholden to the company's ability to utilize the generated tax credits and benefits. Interested parties noted that there are other investments which do not have as stringent admittance criteria as have been proposed in paragraph 18. NAIC staff note that other investments generate returns primarily through the receipt of fungible cash income or by providing a claim to the entity's earnings and assets (bonds, stocks, joint ventures, partnerships and LLCs). In comparison, the main purpose of a tax credit investment is to provide returns in the form of tax credits and other tax benefits, and this purpose is further borne out by the commonly used partnership flip structure for tax credit investments and that once the tax credits have been fully allocated the residual value of a tax credit investment is typically nominal.

iii. Additionally, the requirement to assess tax credit investments by looking at the company's ability to realize future tax credits is not a new concept. Under existing OTTI guidance companies are required to record OTTI if the company determines it is probable that future tax benefits will not be received as expected (SSAP No. 93 paragraph 17, sentence 1). Per SSAP No. 93 paragraph 17, to determine if OTTI has occurred companies are required to assess whether the investment will continue to issue the tax credits as anticipated (see sentence 5) AND whether the company will be able to realize/utilize the future tax benefits to be received (see sentences 2 and 3). As part of the re-write of SSAP No. 93 Staff moved the requirement to assess the company's ability to utilize future tax credits out of impairment to admissibility. As currently revised, the impairment test specifically addresses the functionality of the investment whereas the paragraph 18 admittance test specifically addresses the ability of the company to realize/utilize the future tax benefits. This change intended to simplify the impairment analysis by focusing on investment functionality, but also because Staff felt that the company's ability to utilize/realize future tax benefits was more accurately characterized as an admittance concern rather than an impairment of the investment itself.

2) Interested parties suggested a number of editorial changes to affect clearer guidance in paragraphs 18 and 18a. These included clarifying that the paragraph 18 assessment of unallocated tax credit utilization should be performed over the life of the tax credits rather than the life of the investments, including its carryforward periods. Interested parties also suggested clarifying in paragraph 18 that tax planning strategies are to be used when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. In paragraph 18.a., interested parties suggested removing the sentence detailing what to do if fair value is not non-determinable.

i. NAIC staff agreed with substantially all the editorial clarifications suggested by interested parties and updated accordingly.

3) Interested parties suggested adding a definitions section to the guidance regarding the following terminology:

"unallocated tax credits" - the portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.

"current portion" - the credits to be allocated within one year of the reporting period.

i. NAIC staff agreed with the suggestion by interested parties to add definitions and updated accordingly with some minor modifications. NAIC staff also added some additional definitions to provide clarifications on other terms used in SSAP 93.

4) Interested parties suggested that the new SSAP 93 be applied prospectively effective 1/1/2025, but no early adoption.

i. NAIC staff agreed with the changes suggested by interested parties and updated accordingly.

The comments provided on SSAP No. 94R are below and have been summarized for brevity:

5) Interested parties suggested that the revised SSAP 94R also be applied prospectively effective 1/1/2025 with early adoption permitted. Additionally, interested parties suggested a clarification of the scope of SSAP 94R by adding the following language to paragraph 1:

Ref #2022-14

"This statement establishes statutory accounting principles for state and federal tax credits that are purchased by the reporting entity without being ~~a~~an bond or equity investor in the entity from which the tax credit were purchased."

i. NAIC staff agrees with prospective application of SSAP 94R with an effective date of 1/1/2025, however we have elected to not include the changes to the scope of SSAP 94R. The reasoning is that this guidance intends to exclude tax credits allocated from SSAP 93 investments, which does not specifically identify which tax credit investment structures are within scope of the guidance. However, NAIC staff did make other adjustments to the scope paragraph to better clarify that tax credits from SSAP No. 93 investments are not within scope of SSAP 94R.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions made to SSAP Nos. 34, 48R, 93, and 94R as part of the new market tax credit project. Revisions to SSAP No. 93 include a glossary of key terms, impairment guidance on variable tax credit allocations, disclosures on unused tax credits, and editorial changes to paragraph 18. Revisions to SSAP No. 94R include guidance clarifying that awarded tax credits are not within scope and commitment/contingency language. The exposure includes new revisions to SSAP Nos. 34 and 48 which clarified that tax credits are not within the scope of investment income guidance and updated for new SSAP No. 93 language, respectively. Additionally, the Working Group requested comments from regulators and industry on new RBC reporting categories.

On January 29, 2024, the Statutory Accounting Principles (E) Working Group exposed, through an evote, further revisions made to SSAP Nos. 93R and 94R as part of the New Market Tax Credit project. Revisions to SSAP No. 93 and 94R included minor consistency and clarifying revisions. More substantial revisions were made to SSAP No. 93 in response to concerns raised by interested parties over the administrative burden of the paragraph 18 admittance tests (now referred to as the Prospective Utilization Assessment). The Prospective Utilization Assessment was revised to remove the initial assessment of the current portion of unallocated tax credits and replaced with language that required companies to perform the Prospective Utilization Assessment only if certain conditions exist.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 93, updated for the corrections to example 2, and SSAP No. 34, SSAP No. 48, and SSAP No. 94R to expand and amend statutory guidance to include all tax credit investments regardless of structure and type of state or federal tax credit program, and all state and federal purchased tax credits. The effective date of the revisions is January 1, 2025.

The Working Group also directed staff to:

1. Sponsor a blanks proposal on the annual statement reporting categories for tax credit investment RBC by using the suggestion from the interested parties comment letter to maintain the same categories but without reference to LIHTC (bullet 1) and to also update/clarify the instructions accordingly.
2. Send a referral to the Life Risk-Based Capital (E) Working Group to inform them of the planned reporting line changes, which may indicate review of the RBC charges as different categories of tax credits will be reported in the form.
3. To draft an Issue Paper to document the discussions and revisions.

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Ref #2022-14

On February 25, 2025, the Working Group adopted, as final, *Issue Paper No. 170—Tax Credits Project* which documents for the historical record the conceptual changes to statutory accounting guidance made by this Form A and other related agenda items.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A4-22-14 - NMTC.docx

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Ref #2022-14

Statutory Issue Paper No. ~~xxx~~170

~~New Market~~ Tax Credits Project

STATUS
~~Exposure Draft – August 13, 2024~~Finalized February 25, 2025

Original SSAP: SSAP No. 93 and SSAP No. 94R
Current Authoritative Guidance: SSAP No. 93 and SSAP No. 94

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The purpose of this issue paper is to document for the historical record the ~~substantive~~ conceptual changes to statutory accounting guidance detailed in *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits*, respectively.

2. This issue paper illustrates tracked changes in SSAP No. 93 and SSAP No. 94R, effective January 1, 2025. The ~~substantive~~ conceptual revisions to SSAP No. 93 and SSAP No. 94R include revised accounting guidance on tax ~~equity and bond~~credit investments~~,~~ and purchased tax credits ~~earned or purchased~~. The adopted revisions to SSAP No. 93, SSAP No. 94R, *SSAP No. 34—Investment Income Due and Accrued*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* are illustrated as tracked changes in Exhibits A, B, and C, respectively. Exhibit D is a flowchart which details the order of operations for applying the revised SSAP No. 93.

Note: On August 13, 2024, the Working Group adopted revisions to remove the "R" identifier from SSAP titles and references within the AP&P Manual. As 2022-14 was adopted prior to this change, the "R" identifiers have been maintained throughout the issue paper for the sake of clarity and consistency to the original discussions. Per the *As of March 2025 Accounting Practices and Procedures Manual*, the revised SSAP Nos. 93R and 94R are shown as SSAP Nos. 93 and 94.

DISCUSSION

3. This issue paper provides a historical reference that includes tracked changes adopted within SSAP No. 34, SSAP No. 48, SSAP No. 93 and SSAP No. 94R. The conceptual changes were a result of the passage of the Inflation Reduction Act (IRA) and the Financial Accounting Standards Board (FASB) adopting *ASU 2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* (ASU 2023-02) which amends ASC Topic 323 to allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits.

4. The IRA was signed into law by President Biden effective August 16, 2022. The tax law was expansive but had a significant effect on the tax laws underlying several significant federal tax credit programs. The changes to the wind and solar tax credit programs, which were effectively extended for 12 years (10 years plus a 2-year phase out), were particularly significant as the programs had previously been extended for brief periods of time at each renewal. Additionally, while the overall base tax credit rate was lowered for most tax credit programs, the total potential tax credits generated from these tax credit programs was increased (potentially as much as 5x to 6x the base rate) through the provision of bonus tax credits. To qualify for these bonus tax credits the project must meet specific wage, labor, material, or project location requirements. Other significant changes included expansion of the ability to transfer/sell certain types of tax credits to for-profit entities and the creation of a 2025

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statutory transition for the technology specific Production Tax Credits (PTCs) and Investment Tax Credits (ITCs). Subsequent to 2025, PTCs and ITCs will be superseded by technology neutral tax credits known as Clean Electricity Production Tax Credits (CEPTC).

5. From a statutory accounting perspective, a tax credit investment is an asset representing a future stream of tax credits and benefits, which can be used to pay policyholder obligations by either offsetting tax liabilities, selling the allocated tax credits on a secondary market, or through receipt of a tax refund for the tax credits. This definition is one of the main foundational concepts used while formulating the SSAP No. 93R draft. While most tax credit investments may be sold, the primary purpose of acquiring a tax credit investment is to generate tax credits which benefit reporting entities, most commonly through a reduction in tax liability ~~or, when permitted by IRS or state tax provisions, through the sale of certificated/transferable tax credits~~. As the primary purpose of these investments is the generation of tax credits, impairment guidance focuses on the investment's ability to generate tax credits and admittance guidance focuses on the ability of the company to utilize the tax credits to be received (clean initial tax opinion and unqualified annual audits) and the reporting entity's ability to utilize these tax credits (prospective utilization assessment).

6. While ASU 2023-02 was adopted with modification, it should be noted that the revisions to SSAP No. 93 were ultimately more expansive than those adopted to U.S. GAAP by ASU 2023-02. These departures are discussed in detail in SSAP No. 93R, paragraph 36.

Actions of the Statutory Accounting Principles (E) Working Group

7. In August 2022, FASB issued *Proposed Accounting Standards Update Investments—Equity Method and Joint Ventures (Topic 323)—Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. On December 13, 2022, the Working Group moved agenda item *2022-14: New Market Tax Credits* to the active listing, categorized as a new SAP concept, and exposed a discussion document to expand current statutory accounting guidance for low-income housing tax credits to capture all tax equity investments that provide general federal business tax credit and state premium tax credits if they meet specified criteria. The initial discussion document utilized the August 2022 Proposed ASU as the basis for the changes to SSAP No. 93 and included 12 specific discussion items.

8. On February 10, 2023, the Working Group received a comment letter from interested parties which provided responses to the discussion items detailed in document 2022-14b. Interested parties' comments and the Working Group's responses are detailed below:

a. **Comment:** Interested parties agreed that all investments, no matter what legal form, which primarily earn tax credits should utilize the proportional amortization method. It is noted that the discussion document appeared to only scope in tax equity investments and that interested parties would suggest the inclusion of language to either include tax credit bonds or clarify their exclusion from SSAP No. 93. As part of this clarification, interested parties asked if the Working Group intends to change CAPCO guidance or continue to allow CAPCOs to be reported on Schedule D. Interested parties noted that tax credit bonds are currently being reported on Schedule D and if the intent is to move these investments to Schedule BA, then interested parties would request that they be allowed to report with an NAIC designation, which reflects the low-risk nature and high-credit quality implicit in tax credit bonds.

i. **Response:** As a result of interested parties' comments, the Working Group directed NAIC staff to expand its draft of SSAP No. 93R to include tax credit bonds but directed that the CAPCO guidance remain in place and not be extended to other tax credit bonds as this is a legacy one-off exception. Additionally, it is the intent of both the bond project

and the draft of SSAP No. 93R that investments in which the primary returns are tax credits are to be reported on Schedule BA.

b. **Comment:** Interested parties noted no issues with requiring the proportional amortization method under statutory accounting, which is a departure from U.S. GAAP which makes the proportional amortization method an election. Interested parties would also like to confirm that the 'Substantially All Projected Benefits" criterion along with the rest of the criteria are assessed at the time of purchase of the investment and not at every reporting period. Interested parties also noted that if NAIC staff intend to include tax credit bonds in the scope of SSAP No. 93, then the scoping criteria will need to be amended. Additionally, interested parties included an appendix of tax credit investments issued in debt/bond form to aid NAIC staff.

i. **Response:** NAIC staff noted that the paragraph which precedes the scope criterions notes that investments must meet these criteria at the point of initial investment. The Working Group reviewed interested parties' list of tax credit bond investments and noted the following:

(a) *Certified Capital Companies (CAPCOs):* As noted above, the Working Group does not intend to amend the existing carveout guidance for CAPCO investments as part of the SSAP No. 93R draft.

(b) *Other State Tax Credits issued in Bond Form and Federal New Market Tax Credit (NMTC) Programs:* As the described investment vehicles issue securities to investors through the issuance of equity, these tax credit investment examples would firmly fall within the tax equity investment category rather than as true tax credit bonds. Further revisions will be made within the SSAP No. 93R draft guidance that any tax investment which includes an equity component, however nominal, would be considered a tax equity investment rather than a tax credit bond.

(c) *State or Municipal Tax Credit Bond Strips***:** At the Working Group's direction, NAIC staff have included Tax Credit Bond Strips within the SSAP No. 93R draft guidance as an example of a tax credit bond (Note: This was later clarified to only include tax credit strips which had stripped the future stream of tax credits from a debt security). NAIC staff also included a footnote noting that BABs and QTCBs are examples of tax credit bonds.

c. **Comment:** Interested parties noted that guidance needs clarification on the inclusion of tax credit investments structured as bonds. Additionally, interested parties noted that there are other exceptions to the "at-risk" requirement for tax credit investments as well as the guaranteed returns exclusion.

i. **Response:** At the Working Group's direction, NAIC staff removed references to yield/return guarantees and at-risk requirements for certain tax credit programs from the SSAP No. 93R draft. As these requirements and exclusions can change program to program and state to state, trying to detail specific guidance on these issues would be cumbersome and easily made out-of-date. Additionally, the current version of the SSAP No. 93R draft requires a fund level tax opinion for tax credit investments which would be required to provide a high confidence level on the efficacy of any yield/return guarantees and whether the investment vehicle is subject to 'at-risk' rules.

d. **Comment:** Interested parties noted that existing statutory accounting guidance requires the amortization of LIHTC tax equity investments be recorded in net investment income, whereas U.S. GAAP has proportional amortization recorded to the income tax line along with the earned and utilized tax credits.

i. **Response:** The initial draft proposed revisions to make the statutory accounting treatment for PAM expense substantially consistent with U.S. GAAP. The original intent for segregating proportional amortization activity from the income tax line was out of concern for any non-tax income or gains recognized from the investment. Current U.S. GAAP guidance stipulates that any non-tax income or gains are to be recognized as investment income which addresses this concern. However, upon further discussion with the Working Group it was determined that inclusion of the proportional amortization in income taxes would result in errors on the Schedule BA Verification between Years and on the Exhibit of Net Investment Income. The cost basis of Tax Credit Investments would be recorded to Schedule BA, but if the amortization were to be excluded from net investment income, then the change in the book value of investments would not roll. Upon review of the initial draft proposal, the Working Group determined that while changes could be made to the Schedule BA Verification between Years and the Exhibit of Net Investment Income, these updates would represent significant changes to these forms. The Working Group decided that the best path forward was to map out the changes that this would require to both schedules and then present it to the state insurance regulators for input (Note: Discussions with state insurance regulators and interested parties later determined that convergence with U.S. GAAP on this issue was not feasible due to the significance of the changes needed to the annual statement).

e. **Comment:** Interested parties noted that one additional difference between statutory and U.S. GAAP accounting treatment of proportional amortization is that under U.S. GAAP, there are no DTAs set up for tax credit carryovers since the amortization and the tax credits are reported in the same line.

i. **Response:** As of the NAIC 2023 Spring National Meeting, the Working Group directed NAIC staff to expand the ~~New Market~~ Tax Credits Project to also include SSAP No. 94R, which addresses the recognition of purchased tax credits. Based on current revisions, federal tax credits which cannot be utilized are subject to DTA guidance as detailed in *SSAP No. 101—Income Taxes*.

f. **Comment:** Interested parties believe that the non-admittance criteria detailed in the discussion document are too punitive as it would require the reporting entity to non-admit the entire investment if it does not have taxable income in a given year. Interested parties also questioned whether there is overlap between the non-admittance criteria and the impairment criteria. Additionally, interested parties requested clarification that the tax opinion requirement was only for the initial year of investment.

i. **Response:** At the Working Group's direction, the non-admittance criteria was modified to ensure that it was clearly separate for impairment guidance and relax the non-admittance criteria so that the investment is not fully non-admitted if the entity has a short period of no taxable income. As part of these changes, a 3-year window in which the tax investment is fully admitted less any tax credit amounts not anticipated to be used. The updated guidance is intended to non-admit tax credit investments only to the extent a portion of the credits earned during that period cannot be used. In the event the reporting entity cannot substantially utilize those 3 years of tax credits an assessment must be

performed to determine how much of the total investment cost basis can be admitted. (Note: The admittance test described here was substantially revised in 2024. See the prospective utilization assessment.)

Revisions were also made to clarify that the tax opinion requirement is required at the point of initial investment by the reporting entity, as well as to add additional guidance on the scope and required confidence level expressed by the tax opinion.

g. **Comment:** Interested parties agreed that loss contingency guidance is appropriate for determining if future contributions give rise to a liability.

i. **Response:** None.

h. **Comment:** Interested parties did not have an objection to incorporating fair value in the assessment of impairment.

i. **Response:** None.

i. **Comment:** Interested parties noted that under question 8.f, non-admitting the entire investment appears too punitive for companies that expect to utilize the credits in a later year. Interested parties agreed that impairment would occur when the credits will not emerge at all. Question #6 needs to be clarified to explain these concepts since the way it is currently written, it seems to scope in the impairment criteria into the non-admission review.

i. **Response:** See the response detailed in paragraph 8.f.

j. **Comment:** Interested parties did not have an objection to disclosing information about the nature of investments for which tax credits are earned. Paragraph 27(b) seems repetitive with the other information that is being required under paragraph 28 regarding the amount of tax credits and other tax benefits during the years presented.

i. **Response:** The Working Group aims to conform to U.S. GAAP where feasible and these disclosures were pulled from the proposed ASU. Regarding the concerns of duplication, the guidance in paragraph 27 requires qualitative disclosures on tax credit investments (method of accounting used, nature of the investment, etc.) whereas paragraph 28 requires primarily quantitative disclosures of tax investment financial data.

k. **Comment:** Interested parties noted that while most disclosures are substantively the same as was previously required under SSAP No. 93, except the 15-year future realization of tax credit disclosure which is more detailed than most other investments and would require additional work to prepare.

i. **Response:** The Working Group agreed with Industry that the 15-year future realization disclosure was more detailed than is required for other investments, and directed NAIC staff to remove these disclosures, and reduce the future realization disclosure to 5 years and thereafter.

l. **Comment:** Interested parties noted that the additional disclosure requirements for tax credit investments in excess of 10% of admitted assets should be removed as they believe the detail does not provide relevant information and it would be quite rare for an insurer to have tax credit investments of such significance.

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i. **Response:** The Working Group agreed that such a situation would be rare, and that it does not make sense to codify a separate set of disclosure requirements for such an unusual situation. NAIC staff were directed to remove these additional disclosures in their entirety.

m. **Comment:** Interested parties provided several other general comments on the discussion document which were: 1) Clarification on the difference between SSAP No. 93 and SSAP No. 94R on the matter of certificated tax credits. 2) SSAP No. 94R currently requires purchased tax credits to be recorded under "Aggregate Write-Ins for Other Than Invested Assets". 3) Gains and Losses on certificated tax credits are required to be reported in other income per SSAP No. 94R whereas SSAP No. 93 requires inclusion of gains and losses from tax equity investments to be reported in net investment income.

i. **Response:** The Working Group direct NAIC staff to draft revisions to SSAP No. 93R and SSAP No. 94R to clarify the usage and inter-relationship of these SSAPs. As part of the revisions to SSAP No. 94R directed by the Working Group, NAIC staff will propose moving the reporting of federal tax credits from within the "Aggregate Write-ins for Other Than Invested Assets" line to inclusion within the reporting line for DTAs. The SSAP No. 93R draft will also be revised to provide guidance on tax credit investments whereas SSAP No. 94R would provide guidance on both allocated and purchased tax credits. (Note: The guidance discussed in this paragraph was substantially revised later on during 2023. As in, tax credits allocated from SSAP No. 93R investment are NOT within the scope of SSAP No. 94R.)

9. In March 2023, FASB issued and adopted ASU 2023-02. A comparison of the final ASU to the proposed ASU and noted during that most of the changes made to the final ASU would have no effect on the revisions proposed for SSAP No. 93 as the use of the proportional amortization would be a requirement under statutory accounting rather than an election. As a result of its review of the final ASU, new language to replace existing SSAP No. 93 language in SSAP No. 48 was drafted for Working Group review.

10. At the NAIC 2023 Spring National Meeting, the Working Group directed NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits.

11. During April 2023, the Working Group discussed further proposed changes to the SSAP No. 93R draft. Significant changes resulting from this discussion were as follows:

a. References to equity and bond style tax credit investments were further simplified to generically refer to 'tax credit investments' with the intent to capture any investment vehicle that generates returns primarily in the form of tax credits and tax benefits. Additionally, there were concerns expressed that the inclusion of bond terminology within the SSAP No. 93R draft could cause confusion or conflict once the Principles Based Bond Definition (PBBD) project was completed and adopted for statutory accounting purposes. Tax credit debt instruments would certainly not qualify as bonds under the new bond guidance and the decision was made to remove references to "tax credit bonds" or "tax equity investments" except where strictly necessary for clarification purposes.

b. Admittance of tax credit investments were discussed in detail and the determination was made to separate the requirements into three parts: 1) Require companies to obtain an initial year tax opinion thus defined to include the fund and the projects and, as part of this definition, guidance was added regarding the confidence level required for the tax opinion to support admittance. 2)

Require annual audits of tax credit investments. Based on discussion with industry experts, an audited financial statement requirement should not result in additional costs incurred by insurers as audits are typically performed as a matter of course on tax equity investment entities. To ensure that valid tax investments aren't nonadmitted due to a delay in audit completion, an allowance for insurers to use the prior year's audit as an alternative as well as a carve out from the annual audit requirement for any tax credit investments which, by virtue of their structure, could not be audited. It should be noted that the intent of the carve out was to prevent the annual audit requirement effectively non-admitting tax credit investments structured as debt securities. However, it was also the intent that any component of equity ownership involved in the investment, no matter how nominal, would exclude it from this carve out.

c. Additional changes were made to the sections detailing accounting guidance on future equity contributions and additional tax credits. It was noted that the version presented in the discussion document could result in a situation where the reporting entity would be required to recognize a liability and expense on future contributions as the SSAP No. 93R draft requires any equity contributions not resulting in additional tax credits to be expensed. The Working Group determined that not only did this miss the mark on proper application of the matching principle, but it was also unnecessarily punitive. Based on this discussion, the proposal was amended to require the accrual of a liability for future equity contributions which result in additional tax credits, but only disclosures are required if the future equity contributions do NOT result in additional tax credits. Furthermore, the Working Group discussed what potential benefit would be gained by requiring companies to segregate additional tax credits allocated from future equity contributions and determined that no value was gained from this requirement. As such, the revisions to the SSAP No. 93R draft were changed to allow for the existing amortization schedule for the investment to be adjusted on a prospective basis for additional tax credits allocated.

d. NAIC staff noted that one of the more significant departures from existing U.S. GAAP and statutory accounting guidance was the exclusion of proportional amortization from income taxes. Under current statutory accounting guidance, proportional amortization from LIHTC investments is recorded to net investment income which (above the line or as component of net income) on the annual statement, whereas U.S. GAAP accounting guidance has proportional amortization recorded as a component of income taxes (below the line or after net income). At the direction of the Working Group, NAIC began to explore converging with U.S. GAAP on this issue. Initially, NAIC staff believed that guidance it would be fairly simple to converge statutory accounting with existing U.S. GAAP guidance on this issue but upon further review and discussion of the annual statement NAIC staff became unsure whether this was feasible. One of the main concerns identified was that if proportional amortization from tax credit investments was not run through net investment income, then a reconciling item would be required to ensure the Exhibit of Net Investment Income and Schedule BA Verification between Years rolls properly. Otherwise, net investment income per Schedule BA would not be recalculable to the exhibit of net investment income and the Schedule BA verification would fail its cross-checks. NAIC staff mapped out the changes that would be required to the blanks to conform statutory recognition of proportional amortization to U.S. GAAP. NAIC staff's initial draft Blanks proposal included a reconciling item to the Exhibit of Net Investment income to back-out proportional amortization from tax credit investment recognized in income taxes, and bi-furcation of row 8, 'Deduct amortization of premium and depreciation' between amounts recognized from SSAP No. 93R investments and other types of investments. Based on this initial draft, the Working Group determined that convergence with U.S. GAAP was not practical as it would require a number of changes to the blanks, verifications, and instructions. While it would be possible, tax credit investments do not currently represent a significant position on insurer portfolios, and it would not be reasonable to

substantially change reporting lines and schedules simply to convergence with U.S. GAAP on what amounts to a minor reporting variance. At the direction of the Working Group, the changes to the SSAP No. 93R draft to converge statutory reporting of proportional amortization expense with U.S. GAAP were scrapped.

12. On May 16, 2023, the Working Group exposed revisions to SSAP No. 93 and SSAP No. 94R. The revisions to SSAP No. 93 propose adoption with modification of ASU 2023-02, which would include modifications to scope in all qualifying state and federal tax credit investments regardless of structure or the underlying tax credit program. The revisions to SSAP No. 94R expanded its scope to include all state and federal tax credits whether purchased or allocated, and that tax credits received should be recorded at face value with losses realized immediately and gains deferred on the balance sheet.

13. On June 30, 2023, the Working Group received a comment letter from interested parties on the exposed revisions to SSAP No. 93 and SSAP No. 94R. Interested parties provided several comments on both SSAPs which are summarized below along with the Working Group's responses. The interested party comments provided on the SSAP No. 93R draft were:

a. **Comment:** Interested parties noted that paragraph 3 does not provide specific direction for which SSAPs would be applicable for tax credit investment which do not fall within SSAP No. 93.

   i. **Response:** The Working Group agreed with the recommendation and directed NAIC staff to update SSAP No. 93R, paragraph 3, to provide readers with specific SSAPs which could apply to non-qualifying equity or debt structure tax credit investments.

b. **Comment:** Interested parties noted that the current draft directed readers to refer to SSAP No. 94R for how to account for tax credits allocated from tax credit investments. They felt that this cross-reference was confusing and could potentially lead to conflicting interpretations.

   i. **Response:** To reduce confusion, the Working Group directed NAIC staff to remove the paragraph directing readers to SSAP No. 94R and instead pulled in the specific paragraphs from SSAP No. 94R which would be applicable to tax credits allocated from tax credit investments.

c. **Comment:** Interest Parties noted that they were unclear on whether the tax credits earned, or the tax credit investments were subject to the admittance criteria detailed in SSAP No. 93R paragraphs 18.a.-18.c. Interested parties felt that admissibility concerns are adequately addressed by the tax opinion and audit requirements. Additionally, if NAIC staff's concern is the admittance of tax credits carried forward to a future period, then this should be adequately addressed by the admittance rules detailed in SSAP No. 101 for deferred tax assets. Interested parties suggested that paragraphs 18.a.-18.c. be deleted in full.

   i. **Response:** NAIC staff noted that the admittance rules detailed in SSAP No. 93R paragraphs 18.a.-18.c. do NOT provide guidance on the admittance of allocated tax credits. For tax credit investment structures to fall within the scope of the SSAP No. 93R draft, substantially all benefits must be from tax credits or other tax benefits which essentially means that balance of a tax credit investment represents a future stream of tax credits and tax benefit. As such, the admittance rules in paragraph 18.a.-18.c. would require a company to assess its ability to utilize that future stream of tax credits to what amount of the tax credit investment would be non-admitted. If the company's projections determine it will be unable to substantially utilize the future stream of tax credits (i.e., the tax credit investment balance) then potentially all or a portion of the tax credit investment

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would be considered non-admitted as the company is unable to utilize the future stream of tax credits to offset tax liabilities. (Note: The admittance test discussed in this paragraph was substantially revised in 2024. See the prospective utilization assessment.)

ii. In response to these comments, the Working Group directed NAIC staff to revise SSAP No. 93R paragraphs 18 through 18.c. to further clarify the intent and purpose of the guidance, as well as the order of operations to be followed when assessing the reporting entity's ability to utilize unallocated tax credits from the investment were incorporated.

iii. Tax credit investments are essentially an asset representing a future stream of tax credits and benefits, which could be used to pay policyholder obligations by either offsetting tax liabilities, sale on a secondary market, or through receipt of a refund. However, if a reporting entity is unable to utilize the tax credits and benefits received from these investments due to the reporting entity's financial performance then the benefits received from the tax credit investment would no longer represent an asset that can be used to pay policyholder obligations. SSAP No. 93R paragraphs 18 and 18.a. would require the reporting entity to nonadmit the investment, either partially or fully, due to its inability to utilize the future stream of tax credits and benefits. This differs from impairment as the intent is not to assess the investment's viability, but rather to assess the company's ability to utilize the future stream of tax credits and benefits. Without these paragraphs, there would exist no mechanism in statutory accounting guidance, which would require a poorly performing company (for example, one which has fallen below the RBC control threshold) to nonadmit tax credit investments, even though they cannot be used to pay policyholder benefits since the tax credits cannot be utilized. Paragraphs 18.b. and 18.c. provide a carve out for the admittance of tax credit investments which provide transferable/certificated or refundable tax credits. (Note: The admittance test discussed in this paragraph was substantially revised in 2024. See the prospective utilization assessment.)

d. **Comment:** Interested parties noted that U.S. GAAP requires retrospective adoption of ASU 2023-02 and that this would result in U.S. GAAP vs. statutory accounting differences.

i. **Response:** In response to industry's concerns on differences between U.S. GAAP vs. Statutory implementation, the Working Group directed NAIC staff to update the draft of SSAP No. 93R to be adopted retrospectively to conform with industry's request. (Note: It was later clarified by interested parties that this comment was a question rather than a request. Upon adoption in 2024, the revisions in the SSAP No. 93R draft are to be applied prospectively.)

14. The interested party comments provided on SSAP No. 94R were:

a. **Comment:** Interested parties requested that paragraph 1 of the Scope of Statement section be amended to clarify which types of tax credits are within scope of SSAP No. 94R. Interested parties felt that the key difference between SSAP No. 94R and SSAP No. 93 is that the former is for purchased tax credits and the ladder is for tax credits earned from investments.

i. **Response:** The Working Group generally agreed with the comments provided but directed NAIC staff to remove the term "certificate" from the requested changes. The intent of SSAP No. 94R is to provide guidance on all purchased state and federal tax credits, not just certificated tax credits. Additional language was also added to clarify the

scope of SSAP No. 94R for allocated tax credits, as detailed in the next Response paragraph.

b. **Comment:** Interested parties noted that they do not believe allocated tax credits from SSAP No. 93 investments should be within the scope of SSAP No. 94R as the guidance was confusing and could potentially lead to conflicting interpretations. Additionally, Interested Parties believe that tax credits from investments vs. purchased tax credits are distinctly different assets. The only similarity in accounting for the tax credits relates to instances when the credits earned under a SSAP No. 93 investment cannot be utilized in the current year. Under that scenario, a DTA would be recorded, which would be subject to the admissibility rules under SSAP No. 101.

i. **Response:** In response to the interested parties' comments, the Working Group elected to remove tax credits allocated from SSAP No. 93R investments from the scope of SSAP No. 94R to avoid confusion when application the statutory accounting guidance. As a general note from the Working Group, irrespective of whether the tax credits are allocated from an investment or purchased outright, the tax credits received represent the same type of financial instruments which can be utilized as an offset to tax liabilities, sold, or redeemed for cash as a tax refund. Additionally, irrespective of how the tax credits are received they are recorded at face value upon acquisition. The only significant difference is that tax credits purchased at a premium or discount may result in a recognized loss or deferred gain, respectively, whereas any premium or discount on an allocated tax credit is implicit in the recognition of the proportional amortization.

ii. At the direction of the Working Group, additional language was also added noting that allocated tax credits earned from tax credit investments NOT within the scope of SSAP No. 93R should refer to SSAP No. 94R for guidance on how to record allocated tax credits. It was noted that without this language there would be no guidance within Accounting Practices and Procedures Manual for how to account for tax credits allocated from Non-SSAP No. 93R investments (see issue paper paragraph 15 below for further discussion on this guidance).

c. **Comment:** Interested parties noted that most tax certificates reduce a reporting entity's tax liability and do not directly impact the income statement at the time they are used. In addition, interested parties believe that upon purchase, the tax credits should be reported as an other-than-invested asset since the asset represents a right to receive future benefits. As the tax credits become available for use, a reduction to the insurer's income tax payable or premium/state taxes payable should take place.

i. **Response:** The Working Group disagrees with this proposed change as purchased federal tax credits would be reported as other-than-invested assets, versus allocated federal tax credits which would be reported as a deferred tax asset. This would result in the same type of asset being reported on two separate lines based on the manner in which it was acquired. As noted above, the Working Group position is that allocated and purchased tax credits are substantially the same assets irrespective of the way in which they are acquired. Additionally, interested parties also propose that if a tax credit cannot be utilized in the same period in which it was purchased it should be transferred to Deferred Tax Assets. This would not resolve the short-term reporting discrepancy noted previously and adds further complications to the accounting process by requiring a reporting line transfer if the asset is held for longer than a year. As such, at the direction of the Working Group, these changes were not incorporated into the proposed revisions.

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d. **Comment:** Interested parties noted that the accounting for purchased tax credits in the SSAP No. 94R exposure is different from the current guidance in that the credits will be recorded at face value instead of at cost. This is not an issue perse, but interested parties did want to point out this discrepancy as compared to the accounting treatment for other assets like bonds and mortgage loans.

    i. **Response:** The Working Group's position is that tax credits, whether received via purchase or allocation, do not represent investments, and has opted to propose accounting guidance that differs from bonds or mortgage loans. The position that tax credits do not represent investments was the main reason for the original SSAP No. 94R guidance which required state tax credits be recorded to Other Than Invested Assets and effectively required tax credits purchased at a discount to defer the gain off the balance sheet by recording the acquired tax credit at cost. The revised guidance currently proposed should be less confusing and provide a more accurate financial picture to record acquired tax credits at face value and defer any gains from discount purchases on the balance sheet.

e. **Comment:** Interested parties proposed changes to Exhibit B to reflect a pro-rata utilization of purchased tax credits in relation to the quarterly accrual of income tax liabilities. The main purpose of these changes was to reflect interested parties' proposed changes in item #2.

    i. **Response:** Exhibit B was updated to incorporate revisions proposed by interested parties and recognizing tax credit utilization is also applicable to exposed draft of SSAP No. 94R.

15. Outside of the changes made in response to the interested parties' comment letter, both exhibits in the SSAP No. 93R draft were revised based on discussions with the Working Group to provide example journal entries of the Proportional Amortization method. As part of this revision, the assumptions in Exhibit B were revised so that a journal entry example could be provided for a residual sale at the end of the proportional amortization period. Additionally, a new footnote was also added to SSAP No. 94R based on informal comments the Working Group received from the public. The new footnote provides clarification on what constitutes a purchased tax credit vs. an allocated tax credit. Purchased tax credits are typically acquired through receipt of a tax credit certificate (certificated) or execution of a transfer form (transferable).

a. The distinction made between a purchased vs. allocated tax credits is intended to address concerns that companies could improperly recognize tax credit investment transactions as tax credit purchases (e.g. expensing equity contributions). Insurers should first consider whether their tax credits are purchases, as defined by footnote 1 in SSAP No. 94R. If the tax credits are received through other means, for example a Form K-1, are indicative of an allocation from an investment. Any investment which allocates tax credits must be assessed to determine if it is within the scope of SSAP No. 93R.

b. Assuming this assessment has already been performed, the insurer may still look to SSAP No. 94R for accounting guidance on how to recognize and utilize tax credits allocated from investments NOT within the scope of SSAP No. 93R. The Working Group's intent with the revised guidance was to clearly disallow tax credit investments from being accounted for under SSAP No. 94R, while still providing some measure of accounting guidance for how to recognize and utilize tax credits allocated from investments NOT within the scope of SSAP No. 93R.

16. In June of 2023, the Working Group received a comment letter from interested parties on the Bond Definition Project which addressed the Schedule BA reporting lines. Included in this comment letter were notes on changes to the Blanks for tax credit investments. Based on NAIC staff's review, the following Blanks

Instruction pages identified as potentially needing updates to conform with the proposed revisions to SSAP No. 93 and SSAP No. 94R (the following page numbers are from the Life blank instructions):

a. *Other Invested Assets - Pg. 29:* Line 8 to be updated for new title of SSAP No. 93R.

b. *Disclosures - Pgs. 165, 241, 268, 273:* Page 165 to be replaced with disclosures detailed in SSAP No. 93R, and update page 241 for new language. Page 268 & 273 to be replaced with disclosures detailed in SSAP No. 94R.

c. *Reserve Calculation Instructions - Pg. 372:* Update instructions for changes.

d. *Schedule BA Instructions - Pgs. 522, 523, 527:* Replacement of all existing Low Income Housing Tax Credit categories, Line Numbers 3599999-4499999, and replacement of instructions for these lines on page 527.

e. *Schedule BA Examples - Pg 526:* Update for new language and examples in updated SSAP No. 93R.

17. The following Blanks forms require update for the current proposal (the following page numbers are from the Life Blanks):

a. *Exhibit of Net Investment Income (Pg. 8):* No changes required.

b. *Schedule BA (Pgs. E07-09):* No changes required.

c. *Schedule BA Verification (Pg. SI03):* Add proportional amortization to the title of row 8.

d. *Asset Valuation Reserve (Pg. 35):* Update LIHTC language for updated line numbers, as noted in 13.3i. – 13.3iii above.

18. At the NAIC 2023 Summer National Meeting, the Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R, and directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

19. Subsequent to the NAIC 2023 Summer National Meeting, the Working Group direct NAIC staff to make the following changes:

a. *Tax Credit Strips from Equity Investments:* The Working Group received an informal comment from the public on footnote 4 in the SSAP No. 93R draft and amended it accordingly to note that tax credit strips created from equity method investment tax credit streams would NOT qualify for the audit exception as the underlying source of the tax credits is, in fact, from an auditable entity. A tax credit strip is simply an instrument which separates the ownership of the tax credits earned from the ownership of the tax credit investment. Stripping the future stream of tax credits from a tax equity investment entity to be sold separately from the equity ownership does not negate the requirement to audit the investor entity and, in turn, the underlying assets generating the stripped tax credit benefits. This clarification was specifically intended to prevent a practice that could be used to circumvent the audit requirement; simply because the stream of tax credits have been stripped from the tax equity investment and placed into a structure resembling a debt instrument does not mean the company can forgo annual audits. In this situation, the company would still need to receive qualifying audits from the tax equity entity which originally held the stream of tax credits.

b. *Unused Allocated Tax Credit Disclosures:* NAIC staff noted that the SSAP No. 93R draft did not have disclosures for unused allocated tax credits. As there is no fundamental difference between a tax credits asset that was acquired via allocation vs. purchase, it made no sense to exclude tax credits received from SSAP No. 93R investments from the majority of the tax credit disclosures required in SSAP No. 94R. The Working Group directed NAIC staff to pull in most of the tax credit disclosures from SSAP No. 94R into the disclosure section of the SSAP No. 93R draft.

c. *Investments in Variable Tax Credit Programs:* The Working Group received an informal comment from industry asking for clarification on whether the normal variations in tax credit allocations in certain tax credit programs (for example, production tax credits) would trigger impairment concerns. NAIC staff were directed by the Working Group to add a new paragraph to the impairment section noting that situations in which actual allocated tax credits from variable programs are less than estimated tax credit by more than 10% in a single period or have consistently returned less than estimated tax credits over multiple allocation periods must either record for impairment or specifically address the issue in its impairment analysis if variable tax credits are less than. The intent of this guidance was to be simple and easy to follow, but more importantly to clarify that companies did not need to consider their investments impaired due to normal and reasonable variations in allocated variable tax credits.

    i. On a practical note regarding the last sentence in SSAP No. 93R paragraph 29, if the tax credit allocation time frame has ended and the investment is in a net loss position when comparing actual tax credits allocated vs estimated tax credits then the remaining balance should be written off as an other-than-temporary-impairment loss in the same period the last tax credit is allocated.

d. *Awarded Tax Credits:* The Working Group received an informal comment from industry which noted that awarded tax credits would not be within the scope of SSAP No. 94R and asked if this was the intent. After discussing the matter, the Working Group felt that it did not make sense to extend the scope of SSAP No. 94R to include tax credits which were not acquired through a financial transaction and directed NAIC staff to make edits to the Scope of Statement to define what an awarded tax credit is and that reporting entities should refer to SSAP No. 101.

e. *Commitments to Purchase Tax Credits:* NAIC staff noted that SSAP No. 94R provided no guidance on commitments to purchased tax credits. Based on this information, the Working Group directed NAIC staff to add a new paragraph to the end of the Accounting and Disclosure sections to address this issue.

20. On September 29, 2023, the Working Group received an interested party comment letter on the exposed revisions to SSAP No. 93 and SSAP No. 94R. Interested parties provided several comments on both SSAPs which are summarized below along with the Working Group's responses. Interested parties' comments on the SSAP No. 93R draft have been summarized for brevity and are shown below:

a. **Comment:** Interested parties noted that the SSAP No. 93R, paragraph 18, admittance test[1] requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. However, interested parties suggested that this admittance criteria

[1]The "paragraph 18 admittance test" is specifically referenced in both the meeting minutes and historical versions of the Form A; however, in 2024 the paragraph 18 admittance test was renamed the "Prospective Utilization Assessment" as the paragraph numbering changed due to revisions made to the SSAP No. 93R draft.

only be applicable to investments which do not allocate transferable or refundable tax credit and if the reporting entity is contractually restricted from selling its ownership interest. Additionally, interested parties suggested deleting paragraphs 18.a. and 18.b. as admissibility is adequately addressed through the impairment analysis required in paragraph 25; mainly that since both the tax credits and investments are saleable there is not significant concern about the reporting entity's ability to utilize these investments and their tax credit returns for policyholder liabilities.

Response: The Working Group noted that interested parties' argument is twofold:

i. First, usage of the investment's fair value as a carve out in SSAP No. 93R paragraphs 18.a. and 18.b. is confusing due to the requirement to test for impairment based on fair value. At the direction of the Working Group, NAIC staff amended paragraph 18.a. to clarify that the carve out allows for admittance of the fair value of the unallocated transferable/certificated tax credits rather than the fair value of the tax credit investment. The tax credit investment balance would include other tax benefits which cannot be sold apart from the investment ownership. The intent of paragraph 18.a. is to allow a reporting entity to at least admit the fair value of the tax credits which can be readily liquidated to pay policyholder claims, which is potentially higher than the admitted amount calculated in paragraph 18.

ii. Second, since these investments may be sold, the admittance assessment of the reporting entity's ability to utilize the tax credits is not needed unless the reporting entity contractually restricted from the selling the investment. As part of this comment, it was noted that these investments may be actively managed and are readily saleable. NAIC staff noted that acquiring tax credit investments with the intent of re-sale puts an insurance company in a similar position as a syndicator in which tax credit investments are developed or acquired for the purpose of sale. At the direction of the Working Group, the SSAP No. 93R draft was revised under the assumption that tax credit investments are acquired for the purpose of obtaining returns through the receipt of tax credits and other tax benefits rather than through the sale of the tax credit investment. Additionally, the Working Group does not believe the paragraph 18 admittance criteria should be amended to provide a carve out for actively managed tax credit investments as it is not feasible to delineate between tax credit investments purchased for sale vs. purchased for generation of tax benefits without introducing some kind of available-for-sale and held-to-maturity framework which is not compatible with statutory accounting concepts. NAIC staff noted that restrictions which prevent investors from selling their ownership represent a minority of tax credit programs. As such, limiting the scope of paragraph 18 to only tax credit investments which cannot be sold would effectively carve out the majority of tax credit investment structures from its scope. Additionally, the assertion that these investments are readily saleable does not change the fact that the balance sheet value of a tax credit investment is predicated on the assumption that the company can use the tax credits and benefits and if they company cannot use these tax credits then the investment returns have no value. Until the investment has been sold, its ability to satisfy future policyholder obligations is beholden to the company's ability to utilize the generated tax credits and benefits. Interested parties noted that there are other investments which do not have as stringent admittance criteria as have been proposed in paragraph 18. NAIC staff noted that other investments generate returns primarily through the receipt of fungible cash income or by providing a claim to the entity's earnings and assets (bonds, stocks, joint ventures, partnerships and LLCs). In comparison, the main purpose of a tax credit investment is to provide returns in the form of tax credits and other tax benefits, and this

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purpose is further borne out by the commonly used partnership flip structure for tax credit investments which typically retain zero, or occasionally nominal, residual value once the tax credits have been fully allocated.

iii. Additionally, the requirement to assess tax credit investments by looking at the company's ability to realize future tax credits is not a new concept. Under current SSAP No. 93 OTTI guidance, companies are required to record OTTI if the company determines it is probable that future tax benefits will not be received as expected. As stated in SSAP No. 93, paragraph 17, sentences 2 through 5, companies are required to assess whether the investment will continue to issue the tax credits as anticipated AND whether the company will be able to realize/utilize the future tax benefits to be received. As part of the SSAP No. 93R draft, the requirement to assess the company's ability to utilize future tax credits was moved out of impairment to admissibility. As currently revised, the impairment test specifically addresses the functionality of the investment whereas the paragraph 18 admittance test specifically addresses the ability of the company to realize/utilize the future tax benefits. This was done to simplify the impairment analysis by focusing on investment functionality, but also because that the company's ability to utilize future tax benefits is more accurately characterized as an admittance concern rather than impairment of the investment balance.

b. **Comment:** Interested parties suggested a number of editorial changes to effect clearer guidance in paragraphs 18 and 18.a. These included clarifying that the paragraph 18 assessment of unallocated tax credit utilization should be performed over the life of the tax credits rather than the life of the investments, including its carryforward periods. Interested parties also suggested clarifying in paragraph 18 that tax planning strategies are to be used when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. In paragraph 18.a. Interested parties suggested removing the sentence detailing what to do if fair value is not non-determinable.

i. **Response:** The Working Group agreed with substantially all the editorial clarifications suggested by Interested parties and directed NAIC staff to update accordingly.

c. **Comment:** Interested parties suggested adding a definitions section to the guidance regarding the following terminology:

"Unallocated Tax Credits" – The portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.

"Current Portion" – The credits to be allocated within one year of the reporting period.

i. **Response:** The Working Group agreed with the suggestion by interested parties to add definitions and directed NAIC staff to update accordingly with some minor modifications. Some additional definitions were also added to provide clarifications on other terms used in the SSAP No. 93R draft. (Note: The definition of "current portion" was later removed as this term was eliminated from the paragraph 18 admittance test in 2024.)

d. **Comment:** Interested parties suggested that the new SSAP No. 93 be applied prospectively effective January 1, 2025, but no early adoption.

i. **Response:** The Working Group agreed with the changes suggested by interested parties and directed NAIC staff to update accordingly.

21. The comments provided on SSAP No. 94R are below and have been summarized for brevity:

a. **Comment:** Interested parties suggested that the revised SSAP No. 94R should also be applied prospectively, effective January 1, 2025, with early adoption permitted. Additionally, interested parties suggested a clarification to the scope of SSAP No. 94R by adding the following language to paragraph 1:

"This statement establishes statutory accounting principles for state and federal tax credits that are purchased by the reporting entity without being a~~n~~ bond or equity investor in the entity from which the tax credit were purchased."

i. **Response:** The Working Group agrees with prospective application of SSAP No. 94R with an effective date of January 1, 2025, however elected to not direct NAIC staff to make the requested changes to the scope of SSAP No. 94R. The reasoning was that this guidance intends to exclude tax credits allocated from SSAP No. 93R investments, which does not specifically identify which tax credit investment structures are within scope of the guidance. However, other adjustments were made to the SSAP No. 94R Scope paragraph to better clarify that tax credits from SSAP No. 93R investments were not within the scope of SSAP No. 94R.

22. On December 1, 2023, the Working Group exposed revisions made to SSAP No. 34, SSAP No. 48, SSAP No. 93, and SSAP No. 94R as part of the ~~new market~~ Ttax ~~c~~Credits Pproject. Revisions to the SSAP No. 93R and SSAP No. 94R drafts included miscellaneous editorial updates and the items discussed above in issue paper paragraphs 19 through 21. The exposure also included new revisions to SSAP No. 34 and SSAP No. 48 which clarified that tax credits are not within the scope of investment income guidance and updated for new SSAP No. 93R language, respectively. Additionally, the Working Group requested comments from state insurance regulators and industry on new RBC reporting categories.

23. Subsequent to the NAIC 2023 Fall National Meeting, interested parties reached out to the Working Group to continue discussions on the paragraph 18 admittance test. The two main concerns raised were that the test would nonadmit previously admitted LIHTC investments and that the test's current structure would significantly increase the administrative burden on insurers who hold tax credit investments. Regarding the first concern, it was pointed out that for all intents and purposes the paragraph 18 admittance test already existed in a simplified form within the impairment LIHTC guidance shown within SSAP No. 93 (see discussion in issue paper paragraph 20). Further discussion developed an initial idea which would allow companies to forgo the paragraph 18 test if the company had no valuation allowance recorded against its DTAs. Based on these discussions and at the direction of the Working Group, NAIC staff drafted new language which would revise the paragraph 18 admittance test. The revisions were as follows:

a. The paragraph 18 admittance test was renamed "Prospective Utilization Assessment" (a specific name was deemed necessary as a new paragraph was added which would have re-numbered the paragraphs).

b. Rather than a practical expedient, language was drafted which would direct companies to perform the Prospective Utilization Assessment if either of two criteria were present in the current or prior period. The first criteria is the existence of a valuation allowance, the second criteria is if the company is aware of any other facts and circumstances which indicate the company would, more likely than not, be unable to substantially utilize the unallocated tax credits. NAIC staff noted that

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since the valuation allowance, under statutory accounting, is specific to federal income tax it could not be the sole criteria for the Prospective Utilization Assessment as tax credit investments which allocate state income tax or premium tax credits are commonplace. Other changes made to SSAP No. 93R as part of revising admittance test were:

i. Included in the Glossary is a definition of the probability of "more likely than not," which is 50% or greater, as this probability concept already existed within SSAP No. 101. As these investments provide earnings primarily in the form of tax benefits it makes sense to utilize similar concepts as those used in SSAP No. 101.

ii. For the other facts and circumstances criteria, to avoid requiring companies to prove a negative (e.g., prove to auditors that other facts and circumstances did not exist) as such the language specifically notes that the company only need perform the Prospective Utilization Assessment if it is aware of other facts and circumstances. However, for this criterion is intentionally broad, and companies should not limit their consideration of other facts and circumstances to the confines of statutory accounting concepts. To this end, two examples of other facts and circumstances were included within the guidance that would meet criteria 2.

iii. The Prospective Utilization Assessment test was also simplified by removing the requirement to perform an initial assessment of the utilization of the current portion of unallocated tax credits; the current portion definition was also removed from the glossary as this term was only used in what was previously referred to as the paragraph 18 admittance test.

24. On January 29, 2024, the Working Group exposed, through an evote, revisions made to SSAP No. 93 and SSAP No. 94R as part of the ~~New Market~~ Tax Credits Pproject (see items discussed in issue paper paragraph 23) as well additional editorial updates. The comment period was accelerated to allow the Working Group the opportunity to adopt the ~~New Market~~ Tax Credits Pproject at the 2024 Spring National Meeting.

25. On February 9, 2024, interested parties provided comments to the Working Group on the January 29th exposure. Interested parties noted that they agreed with the changes made to the Prospective Utilization Assessment (previously the paragraph 18 admittance test) and no further comments on this issue. Comments were provided on a consistency issue with Example 2 of the SSAP No. 93R draft and on the reporting categories that would be used to report tax credit investments for RBC purposes. The comments have been summarized below for brevity:

a. **Comment:** Interested parties noted that Schedule BA has reporting sections for Guaranteed, Non-Guaranteed, and All Other Low Income Housing Tax Credit (LIHTC) investments. The RBC charges are driven by these categories and are 0.14%, 2.6%, and 15%, respectively.

i. **Suggestion 1:** Keep the same categories but remove all references to LIHTC tax credit investments if the expectation is that the RBC charges will remain the same regardless of tax credit program type.

ii. **Suggestion 2:** Keep the same categories, but to have two separate sections in each category, for debt and equity investments.

iii. **Suggestion 3:** Assuming the reporting lines delineate between debt and equity, provide separate RBC treatment for debt structured investments with SVO designation.

b. **Comment:** Interested parties also noted that the current annual statement instructions for LIHTC investments may need some clarity as there is diversity in interpretation as to what the instructions require. For example:

i. Under the non-guaranteed section, there is a reference to "level of leverage below 50%". It is not clear why this requirement is included and whether this requirement is for the insurer to determine whether debt in the structure is below 50% of the total capitalization of the entity or how to classify the investment for accounting and reporting if leverage is higher than 50%.

ii. The "all other" category refers to non-qualifying LIHTC investments. Interested parties are not clear on what non-qualifying means.

c. **Comment:** Interested parties noted that Example 2 was amended to include a residual value, but the computations for proportional amortization and journal entries were not updated for this fact.

26. At the NAIC 2024 Spring National Meeting, the Working Group voted to adopt the exposed revisions, updated for the corrections to Example 2 in the SSAP No. 93R draft, and the revisions, which are as exposed, to SSAP No. 34, SSAP No. 48, and SSAP No. 94R. The effective date of the revisions is January 1, 2025. The Working Group also directed NAIC staff to:

a. Sponsor a blanks proposal on the annual statement reporting categories for tax credit investment RBC by using the suggestion from the interested parties comment letter to maintain the same categories but without reference to LIHTC (suggestion 1) and to also update/clarify the instructions accordingly.

b. Send a referral to the Life Risk Based Capital (E) Working Group to inform them of the planned reporting line changes, which may indicate review of the RBC charges as different categories of tax credits will be reported in the form.

c. Draft an issue paper to document the discussions and revisions for agenda item 2022-14.

27. The Working Group sponsored a blanks proposal (#2024-11BWG) to update the annual statement instructions for changes made by the adoption of ~~the New Market~~ Tax Credits P~~p~~roject. This agenda item was exposed by the Blanks (E) Working Group on April 1, 2024, and included the following updates:

a. Updates to the annual statement instructions in accordance with the SSAP No. 93R and SSAP No. 94R drafts (terminology, disclosures, etc.).

b. AVR/Schedule BA reporting lines were amended to replace references to "Low-Income Housing Tax Credits" with the general term "Tax Credit Investments." While the reporting lines and RBC factors were generally kept the same, the Working did elect to remove the Federal Guaranteed Tax Credit programs from the draft proposal because these types of tax credit investment structures with "make whole" guarantees were substantially eliminated by the Historic Boardwalk Hall, LLC v. Comm of Internal Revenue court decision in 2012.

28. On April 2, 2024, the Working Group sent a referral to the Capital Adequacy (E) Task Force and Life Risk-Based Capital (E) Working Group informing them of the changes made to the annual statement instructions in response to the adoption of the ~~New Market~~ Tax Credits Project.

29. Per discussion with industry, agenda item #2024-11BWG was updated for the following:

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a. **Comment:** Interested parties noted that it would increase consistency in reporting if an example disclosure were provided for Note K(5).

    i. **Response:** The Working agreed and directed NAIC staff to add an example of the disclosure format for aggregate disclosure schedule of tax credits expected to be generated each year for the subsequent five years and thereafter.

b. **Comment:** Interested parties noted that the reporting line titles in the AVR/RBC Instructions were confusing as the guaranteed reporting line is only for yield guaranteed tax credit investments and the criteria for the non-guaranteed reporting line requires compliance guarantees.

    i. **Response:** The Working agreed and directed NAIC staff to update the reporting line titles to increase clarity; the "non-guaranteed" reporting lines were renamed "qualifying" and the "guaranteed" reporting line was renamed "yield guaranteed."

c. **Comment:** Interested parties requested some clarifying edits to the criteria for the yield guaranteed and qualifying tax credit investment categories.

    i. **Response:** The Working agreed and directed NAIC staff to add language to be clear that only yield guaranteed federal tax credit investment previously reported under the federal guaranteed line would need to go to the Other Tax Credit Investments line (assuming it is within the scope of the revised SSAP No. 93).

    ii. The criteria for Qualifying tax credit investments were also amended to be clear that investments must meet all of the stated criteria and that tax credit guarantee agreements from developers or an insurer are acceptable, assuming the transaction is executed at arm's length.

d. **Comment:** Interested parties requested that the duration of the tax credit guarantee agreement, "life of the investment structure" be deleted as often times the life of the investment structure exceeds that of the tax credit compliance period.

    i. **Response:** The Working Group agreed that the life of the investment structure was too restrictive, but also noted that the preferential RBC factor for Qualifying Tax Credit Investments is because the guarantees help limit any potential losses from recapture. A tax credit guarantee agreement could have a compliance guarantee, but only during the construction phase. Without terminology setting the acceptable duration of the compliance guarantee, investments with compliance guarantees lasting only a fraction of the regulatory compliance period would receive the same RBC treatment as those with more robust compliance guarantees. When the LRBC Working Group originally set the RBC factors for the "Non-guaranteed" (now renamed "Qualifying") reporting lines, the presence of these guarantees over the course of the investment was one of the stated reasons for the preferential RBC factor. As a result of these discussion, the Working Group directed NAIC staff to retain a duration requirement but to replace the language "for the life of the investment structure" with "for the duration of the regulatory compliance period of the tax credit program."

30. During July 2024, NAIC staff received informal questions from a public accounting firm on two topics, which are shown below:

Q1: *SSAP No. 93R paragraph 3 makes references to SSAP Nos. 26R and 48. Should this also include a reference to SSAP 94R for purchased credits?*

NAIC staff noted that paragraph 3 is intended to be a redirect for investments which failed to meet the criteria in paragraph 2. Purchased tax credits wouldn't need to be considered under SSAP No. 93R as they aren't an investment structure. As stated in footnote 1 of SSAP No. 94R, a purchased tax credit typically refers to tax credits acquired via certification or transfer form. Whether purchased or allocated, tax credits are not an investment but rather a type of other than invested asset.

Q2: *SSAP No. 93R paragraph 14(iv) states, "The admissibility of tax credits are subject to SSAP No. 101." Is this meant to apply to federal credit carryovers only? If so, suggest clarifying this.*

NAIC staff noted that SSAP No. 101 is applicable to both state and federal tax liabilities per the scope of statement in paragraph 1. While the majority of SSAP No. 101 pertains to federal taxes, paragraph 4 provides guidance on state taxes. Per SSAP No. 101 paragraph 4, the guidance is applicable to state taxes, including income and premium, and the last two sentences of the paragraph address the admissibility of state tax recoverables. The Working Group would consider an unused state tax credit to be synonymous with a state tax recoverable when applying this guidance.

31. On August 7, 2024, the Blanks (E) Working Group adopted, as final, 2024-11BWG with an effective date of January 1, 2025.

~~31.~~32. On August 13, 2024, the Working Group exposed a draft of the Tax Credits Project issue paper and agenda item 2024-18 which proposes clarifying revisions to the adopted changes detailed agenda item 2022-14. These revisions would be effective January 1, 2025, and include:

a. Revisions to SSAP No. 94R accounting guidance as comments noted it was inconsistent with the journal entry examples.

b. Revisions to SSAP No. 93R accounting guidance for recognizing allocated tax credits as comments noted it confusing when compared to the journal entry examples.

c. Revisions to the Scope paragraph in SSAP No. 48 as it was noted that one sentence accidentally wasn't updated as part of the ~~New Market~~ Tax Credits P~~p~~roject.

33. On October 7, 2024, the Working Group sent an updated referral to the Capital Adequacy (E) Task Force and Life Risk-Based Capital (E) Working Group recommending that the RBC instructions shown in LR008, PR008, and XR08 either be removed or updated as the current instructions are no longer relevant.

34. During October 2024, NAIC staff received informal questions from industry professionals on two topics, which are shown below:

Q1: *Does the Certified Capital Companies (CAPCO) carve-out detailed in SSAP No. 93 extend to investments in entities with structures similar to CAPCOs?*

NAIC staff noted that CAPCO carve-out is a historical item and the recently adopted 2022-14 does not intend to change its application. To be clear, the CAPCO carve-out is deliberately narrow in scope and applies exclusively to debt instrument investments in state-legislated "certified capital companies". Investments in entities that are "effectively" a CAPCO or are structured similarly to CAPCOs do not qualify for this carve-out.

Q2: *If a yield guaranty only covers certain components of the investment, can it still qualify for reporting as a "Yield Guaranteed State Tax Credit Investment"?*

The blanks instructions for Yield Guaranteed State Tax Credit Investments state, "There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits." NAIC staff noted that the term "all-inclusive" would require the yield guarantee to encompass the entire investment structure, not just specific components. Furthermore, an investment cannot be deemed to "effectively" contain a yield guarantee based on various contract provisions. A yield guarantee must be explicitly stated in the contract, ensuring that the investor will receive a specified yield or internal rate of return on the tax credit investment structure.

35. On November 17, 2024, the Working Group adopted agenda item 2024-18, as final, with an effective date of January 1, 2025.

36. On December 16, 2024, the Working Group received a comment letter from interested parties stating no comments on the issue paper exposed at the 2024 Summer National Meeting.

37. On February 25, 2025, the Working Group adopted, as final, *Issue Paper 170—Tax Credits Project* to be effective January 1, 2025.

Effective Date

~~32.~~38. The new concept revisions to SSAP No. 93 and SSAP No. 94R and clarifying revisions to SSAP No. 34 and SSAP No. 48 are contained in Exhibit A. Users of the *Accounting Practices and Procedures Manual* should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding revisions to SSAP No. 93 and SSAP No. 94R have been adopted by the Plenary of the NAIC. SSAP No. 93R is effective on January 1. 2025, no early adoption permitted. SSAP No. 94R is effective on January 1. 2025, with early adoption permitted.

RELEVANT STATUTORY ACCOUNTING AND U.S. GAAP GUIDANCE

Statutory Accounting

- *SSAP No. 93R—Investments in Tax Credit Structures*
- *SSAP No. 94R—State and Federal Tax Credits*

Generally Accepted Accounting Principles

- *FASB Accounting Standards Update No. 2023-02*

~~33.~~39. FASB issued ASU 2023-02 to allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits. Prior to ASU 2023-02, U.S. GAAP allowed for the option to apply the proportional amortization method to tax equity investments, but the option was limited to investments in low-income-housing tax credit (LIHTC) structures. The amendments in ASU 2023-02 remove this limitation and permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.

Ref #2022-14

~~34.~~40. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the income statement as a component of income tax expense (benefit). Equity investments in other tax credit structures are typically accounted for using the equity method or Topic 321, Investments—Equity Securities, which results in investment income, gains and losses, and tax credits being presented gross on the income statement in their respective line items.

~~35.~~41. Stakeholders asserted that tax equity investors in economically similar investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits should have the same election as LIHTC investors to account for those investments using the proportional amortization method. In their view, the proportional amortization method provides investors, lenders, creditors, and other allocators of capital (collectively, "investors") with a better understanding of the returns from such investments than the equity method or Topic 321. Because of the current limitation on the application of the proportional amortization method to account only for eligible LIHTC investments, stakeholders asked that the Board allow reporting entities to elect to apply the proportional amortization method to account for tax equity investments that generate income tax credits through other tax credit programs.

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Ref #2022-14

EXHIBIT A – TRACKED REVISIONS TO SSAP NO. 93

Statements of Statutory Accounting Principles No. 93R

~~Low-Income Housing Tax Credit Property~~ Investments in Tax Credit Structures

STATUS

Type of Issue	Common Area
Issued	June 13, 2005; Conceptually revised March 16, 2024
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~~STATUS 1~~
~~SCOPE OF STATEMENT 1~~
~~SUMMARY CONCLUSION 2~~
~~Accounting 2~~
~~Impairment 3~~
~~Audited Financial Statements 4~~
~~Disclosures 4~~
~~Relevant Literature 5~~
~~Effective Date and Transition 7~~
~~REFERENCES 7~~
~~Relevant Issue Papers 7~~
~~EXHIBIT A – LOW-INCOME HOUSING TAX CREDIT PROPERTY INVESTMENTS 8~~

Ref #2022-14

STATUS ..... ERROR! BOOKMARK NOT DEFINED.
SCOPE OF STATEMENT **29**
SUMMARY CONCLUSION **30**
Accounting 31
Application of Proportional Amortization Method 31
Admittance of Tax Credit Investments 32
Future Contributions and Additional Tax Credits 34
Impairment of Tax Credit Investments 35
Disclosures 35
Relevant Literature 37
Effective Date and Transition ..... **Error! Bookmark not defined.**
Glossary 38
REFERENCES ..... ERROR! BOOKMARK NOT DEFINED.
Relevant Issue Papers ..... **Error! Bookmark not defined.**
EXHIBIT A – APPLICATION OF PROPORTIONAL AMORTIZATION METHOD **39**

~~SCOPE OF STATEMENT~~

~~1. This statement establishes statutory accounting principles for investments in federal and certain state sponsored Low-Income Housing Tax Credit (LIHTC) properties owned through limited liability entities that are flow-through entities for tax purposes. State sponsored LIHTC programs that have the following characteristics are within the scope of and shall be accounted for in accordance with this statement:~~

~~a. The program is based upon Internal Revenue Code (IRC) section 42.~~

~~b. The investment requires an ongoing interest in a limited liability entity, which is a flow-through entity, and cannot be transferred apart from this interest.~~

~~c. Resale value of the investment is not based upon the fair value of the underlying real estate.~~

~~d. Fair value of the investment is directly tied to the remaining stream of tax credits and deductible losses available to investors.~~

~~e. The critical element of value is known with a high degree of certainty before being marketed to investors.~~

~~f. The proportional amortization method (as modified by this statement) is more indicative of liquidation value than the equity method.~~

~~State sponsored LIHTC programs requiring ownership in a partnership or limited liability entity that do not have the foregoing characteristics shall continue to be accounted for in accordance with the requirements of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.~~

~~2. Some states have enacted laws that create programs by which transferable and non-transferable state tax credits are granted to entities under certain specified conditions (e.g., an entity makes an investment in a particular industry). Investments in transferable and non-transferable state tax credits are not within the scope of this statement. See *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*.~~

Ref #2022-14

SUMMARY CONCLUSION

3. LIHTC investments held by reporting entities meet the definition of an asset as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement.

4. Resale valuation of these investments is based on the present value of the future stream of tax credits and deductible losses, and not the fair value of the underlying real estate.

5. Investors in entities that manage or invest in low-income housing projects receive tax benefits in the form of tax deductions from operating losses and tax credits. The tax credits are allowable on the tax return each year over a 10-year period as a result of renting a sufficient number of units to qualifying tenants and are subject to restrictions on gross rentals paid by those tenants. These credits are subject to recapture over a 15-year period starting with the first year tax credits are earned. Corporate investors generally purchase an interest in a limited liability entity that manages or invests in the low-income housing projects.

Accounting

6. LIHTC investments shall be initially recorded at cost and carried at proportional amortized cost as specified in this statement unless considered impaired as discussed in paragraphs 16-19. An illustration has been provided in Exhibit A of this statement.

7. A reporting entity investor using the proportional amortized cost method shall amortize any excess of the carrying amount of the investment over its estimated residual value during the periods in which tax benefits are allocated to the investor. The estimated residual value used in determining the amount to be amortized is the estimated residual value at the end of the last period in which tax benefits are allocated to the investor and should not reflect anticipated inflation. Annual amortization shall be based on the proportion of tax benefits received in the current year to total estimated tax benefits to be allocated to the investor. The amortization amount shall be calculated as follows:

a. The initial investment balance less any expected residual value of the investment, multiplied by,

b. The percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the reporting entity over the life of the investment.

8. Under the proportional amortized cost method, the amortization of the investment in the limited liability entity is recognized in the income statement as a component of net investment income/expense. The current tax credit (or benefit) shall be accounted for as a component of income tax expense.

9. Federal tax credits shall be recognized in the income statement as an offset to federal taxes in the tax reporting year in which the tax credit is utilized in accordance with *SSAP No. 101—Income Taxes*. State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized. Tax benefits received, other than tax credits, shall be accounted for pursuant to SSAP No. 101.

10. At the time of initial investment, immediate recognition of the entire benefit of the tax credits to be received during the term of an investment in a low-income housing project is not appropriate. (That is, low-income housing tax credits shall not be recognized in the financial statements before their inclusion in the investor's tax return.)

Ref #2022-14

11. Many LIHTC investments require future equity contributions by the investor (equity contributions), that may be contingent on a variety of conditions, such as receiving representations, contract performance, meeting occupancy requirements, etc. If the commitment by the investor to provide equity contributions meets the definition of a liability as defined in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, a liability shall be recorded.

12. If the commitment to provide equity contributions does not meet the definition of a liability, the contingent commitment shall be disclosed in the notes to the financial statements with other contingent commitments. A liability shall also be recognized for equity contributions that are contingent on a future event when that contingent event becomes probable.

13. Additional funding that does not result in additional tax credits for the reporting entity (investor) shall be expensed as a component of net investment income. In the event a reporting entity obtains additional tax credits for a LIHTC investment, the following shall be applied:

a. If additional tax credits are allocated without additional funding, the additional tax credits shall not be afforded any value; rather, the tax benefit is only recognized when realized.

b. If additional funding directly related to the additional tax credits is required, the provisions of this statement shall be followed as if the additional funding were a new investment in LIHTC property.

14. An investment amortized to residual value in accordance with paragraph 7 of this statement shall not be revalued under any other method during or subsequent to the amortization period, other than as discussed in this statement.

15. Changes in estimated losses shall be accounted for in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors* as a change in estimate and included as a component of net investment income.

Impairment

16. Reporting entities with investments in LIHTC properties shall complete and document an impairment analysis at each reporting period. If it is determined that an impairment exists, the book value of the LIHTC investment shall be compared to the present value of future tax benefits discounted at a risk free rate of return, i.e., the rate on U.S. Treasury obligations of a similar duration, and the investment shall be written down if the book value is higher. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in fair value.

17. Among other things, an other-than-temporary impairment[(INT 06-07)] shall be considered to have occurred if it is probable that future tax benefits will not be received as expected. For example, for LIHTC properties based on state tax credits, if the reporting entity intends to decrease premium volume in that state, it may affect whether or not the tax credits in that state are realizable. The best available information about market share or premiums by state and premiums by line of business generally should be used to estimate the amount of future tax credits that are realizable. For purposes of determining impairment, future tax benefits consist of both estimated tax losses and anticipated tax credits. Loan default or a reasonable probability of credit recapture would signify that tax benefits would not be received as expected.

18. In a multi-tiered partnership, whereby one limited partnership exists only to hold interests in other limited partnerships that are each invested in different developments, the impairment should be determined at the lowest tier. The partnership that holds the assets in which the impairment is determined to exist will be adjusted to a new cost basis representing the lower of book value or the present value of future tax benefits discounted at a risk-free

~~rate of interest. This new cost basis and related realized loss shall be recognized by the holder of a LIHTC investment.~~

~~19. It should be noted that a foreclosure of a single property within an LIHTC investment fund only affects the loss of tax credits on a proportional basis. For example, a foreclosure of one property in a six-property fund generating equal levels of credits would only eliminate 1/6 of the credits, thereby, only affecting 1/6 of the LIHTC investment fund value to the individual investors.~~

~~**Audited Financial Statements**~~

~~20. The reporting entity's return and book value of an LIHTC investment is reliant upon maintaining tax credit eligibility and not its share of the equity as reported on a financial statement. As such, a reporting entity shall monitor the tax credit eligibility of an LIHTC investment through requiring either audited GAAP or audited tax basis financial statements. In the event an audited GAAP or audited tax basis financial statement is not obtained, the asset shall be nonadmitted.~~

~~**Disclosures**~~

~~21. Disclose the number of remaining years of unexpired tax credits and the required holding period for the LIHTC investments.~~

~~22. Disclose the amount of low-income housing tax credits and other tax benefits recognized during the years presented.~~

~~23. Disclose the balance of the investment recognized in the statement of financial position for the reporting period(s) presented.~~

~~24. Disclose if the LIHTC property is currently subject to any regulatory reviews and the status of such review. (Example investigations by the housing authority.)~~

~~25. Any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of equity contributions that are contingent commitments related to LIHTC properties investments and the year(s) that contingent commitments are expected to be paid shall be disclosed.~~

~~26. The significance of an investment to the reporting entity's financial position and results of operations shall be considered in evaluating the extent of disclosures of the financial position and results of operations of an investment in a LIHTC. If in the aggregate the LIHTC investments exceed 10% of the total admitted assets of the reporting entity the following disclosures shall be made:~~

~~a. (i) The name of each partnership or limited liability entity and percentage of ownership, (ii) the accounting policies of the reporting entity with respect to investments in partnerships and limited liability entities (iii) the difference, if any, between the amount at which the investment is carried and the amount of underlying equity in net assets (i.e., nonadmitted goodwill or other nonadmitted assets) and (iv) the accounting treatment of the difference;~~

~~b. For partnerships, and limited liability entities for which a quoted fair value is available, the aggregate value of each partnership, or limited liability entity investment based on the quoted fair value; and~~

~~c. Summarized information as to assets, liabilities and results of operations for partnerships, and limited liability entities, either individually or in groups.~~

~~27. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:~~

~~a. A description of the impaired assets and the facts and circumstances leading to the impairment; and~~

~~b. The amount of the impairment and how fair value was determined.~~

~~28. Disclose the amount and nature of the write-downs or reclassifications made during the year resulting from the forfeiture or ineligibility of tax credits, etc. These write-downs may be based on actual property level foreclosure, loss of qualification due to occupancy levels, compliance issues with tax code provisions within an LIHTC investment, or other issues.~~

~~29. Refer to the Preamble for further discussion regarding disclosure requirements.~~

~~**Relevant Literature**~~

~~30. This statement adopts with modification *ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. The modifications include:~~

~~a. ASU 2014-01 allows the election of using the proportional amortization method if an affordable housing project investment meets several criteria, including the lack of significant influence. This statement requires the proportional amortization method, with modifications as discussed in this statement, for all investments within its scope. Although the terminology is updated, the balance sheet amount and timing of amortization should be the same under this statement and the proportional amortization method in ASU 2014-01.~~

~~b. The proportional amortization method in ASU 2014-01 utilizes a net presentation in the income statement by including the amortized initial cost of the investment and the tax credits and benefits received within income tax expense. This statement requires a gross presentation on the income statement, with proportional amortization of the initial cost of the investment in investment income and the tax credits and benefits included in income tax expense.~~

~~c. Paragraphs 323-740-50-2c and 323-740-50-2d related to disclosures of the optionality of the method used and net reporting, are rejected as not applicable to statutory accounting.~~

~~d. Disclosures should be followed as indicated in the disclosures section in this statement.~~

~~31. This statement adopts with modification *EITF 94-1: Accounting for Tax Benefits from Investments in Affordable Housing Projects* as applicable to statutory accounting to the extent it is not modified by ASU 2014-01. In 2006, this statement modified *Issue Paper No. 99—Nonapplicable GAAP Pronouncements* to remove the reference to EITF 94-1.~~

~~32. ASU 2014-01 and EITF 94-1 are modified for the following statutory concepts:~~

~~a. The elective effective yield method and the net income statement reporting in EITF 94-1 are rejected. The elective proportional amortization method in ASU 2014-01, which replaced the effective yield method, is required for only the balance sheet calculation reflecting the timing and amount of amortization. The proportional amortization method net income statement reporting in ASU 2014-01 is rejected for statutory accounting.~~

~~b. Investments that meet the criteria of this statement are required to use a proportional amortization method as prescribed in this statement. This method requires the tax credits and benefits to be recognized in proportion to the percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the reporting entity over the life of the investment. This statement requires a gross presentation on the financial statements, with amortization in investment income.~~

~~c. Federal tax credits shall be recognized in the income statement as an offset to federal income taxes in the tax reporting year in which the tax credit is utilized in accordance with *SSAP No. 101—Income Taxes*. State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized.~~

~~d. Tax benefits received, other than tax credits, shall be accounted for pursuant to SSAP No. 101. Amortization shall be reported as a component of net investment income.~~

~~e. Reporting entities shall follow the guidance in paragraphs 11 and 12 regarding the application of the definition of a liability and contingent commitments from *SSAP No. 5R—Liabilities Contingencies and Impairments of Assets* to equity contributions.~~

~~f. *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* shall be utilized to account for investments that qualify as subsidiary, controlled or affiliated entities.~~

~~g. The impairment guidance contained in this statement shall be followed.~~

~~h. For statutory accounting purposes, deferred taxes are not reported as a component of income from continuing operations in the income statement; rather deferred taxes are recognized as a separate component of gains and losses in unassigned funds (surplus).~~

~~1. *AICPA Statement of Position 78-9, Accounting for Investments in Real Estate Ventures* (SOP 78-9) is rejected for purposes of statutory accounting in SSAP No. 48. This statement does not intend to establish SOP 78-9 as applicable to statutory accounting.~~

~~2. *FASB Interpretation No. 46, Consolidation of Variable Interest Entities* (FIN 46) is rejected for purposes of statutory accounting in SSAP No. 3. This statement does not intend to establish FIN 46 as applicable to statutory accounting.~~

~~3. *EITF 85-16: Leveraged Leases* (EITF 85-16) is adopted for purposes of statutory accounting in *SSAP No. 22R—Leases*. This statement does not intend to readdress the conclusions reached in SSAP No. 22R.~~

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for qualifying tax credit investments[2] in programs made primarily for the purpose of receiving allowable general business federal tax credits and/or state tax credits, including state premium tax credit programs. Although these investments are often in the form of

[2] The scope of *ASC 323-740–Investments—Equity Method and Joint Ventures—Income Taxes—Proportional Amortization Method* only extends to income tax equity investments, whereas this statement is intended to capture all tax credit investments which meet the criteria in paragraph 2, regardless of structure. This includes, but is not limited to, tax equity investments and tax credit debt investments.

equity, this statement shall be applied to all investments (regardless of the structure of the investment) that qualify pursuant to paragraph 2.

2. A reporting entity that invests in projects or programs that generate general business federal tax credits, corresponding state tax credits or state premium tax credits that meet the following conditions at the time of initial investment are required to capture the investment in scope of this statement:

a. It is probable that the tax credits allocable to the investor will be available.

b. Reporting entity investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying projects.

c. Substantially all the projected benefits are from tax credits and other tax benefits, determined on a discounted basis using a discount rate that is consistent with the cash flow assumptions utilized by the reporting entity for the purpose of deciding to invest in the project.

d. The reporting entity's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.

3. Tax credit investments that do not meet the conditions in paragraph 2 shall be captured within the statutory accounting statement that addresses the underlying investment structure. Equity structured tax credit investments would generally fall within *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. Debt structured tax credit investments should be assessed in accordance with *SSAP No. 26R—Bonds* to determine eligibility for reporting as a bond.

4. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors, to make venture capital investments in "qualified" businesses, are not within the scope of this statement. Although associated with tax credits, the reporting entity is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the reporting entity will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with *Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* and specific statutory accounting guidance addressing CAPCOs.

SUMMARY CONCLUSION

5. Investments in tax credit structures are generally acquired to obtain a positive yield through tax credits and other tax benefits. The value of the investment is primarily based on the value of the remaining stream of tax credits and deductible expenses available to the reporting entity investor. The primary purpose of investing in these tax credit structures is to generate tax credits which benefit reporting entities, most commonly through a reduction in tax liability or, when permitted by IRS or state tax provisions, through the sale of certificated/transferable tax credits.

6. Investments in tax credit structures held by reporting entities meet the definition of an asset as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement.

Ref #2022-14

Accounting

7. This guidance addresses the methodology for measuring an investment that is accounted for using the proportional amortization method. At initial recognition, investments in scope of this statement shall be recorded at cost.

8. Subsequent to initial recognition, the investment shall be carried at proportional amortized cost. Under the proportional amortization method, the reporting entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the investor. The amortization amount shall be calculated as follows:

a. The initial investment balance less any expected residual value of the investment, multiplied by;

b. The percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the reporting entity over the amortization timeframe (life of the investment).

9. Reporting entities shall recognize tax credits in the period they are allocated to the investor for tax purposes. Unless all tax credits are allocated to the reporting entity at the date of initial investment, immediate recognition of the entire benefit of the tax credits to be received during the term of the investment project that generates tax credits and other tax benefits is not permitted. Tax credits shall not be recognized in the financial statements before the year in which the tax credits are allocated.

10. Any expected residual value of the investment shall be excluded from the proportional amortization calculation. Non-tax related benefits received from the investment shall be included as a component of net investment income when realized or realizable. Gains or losses on the sale of the investment, if any, shall be included as a capital gain or loss at the time of the sale. Determination of gain or loss will depend on the reported value (e.g., residual value at the end of the amortization timeframe) compared to the amount received in exchange for the investment. Liquidation of the investment commonly occurs at the end of the tax credit timeframe through a put or call agreement, often reflecting a nominal residual value that was established at the time of acquisition. The liquidation amount from such agreements shall reflect the expected residual value when available.

11. At the end of the amortization timeframe, if the reporting entity retains the investment, the investment shall be subsequently measured and assessed within the statutory accounting statement applicable to the investment held. Retained investments will remain on Schedule BA until disposal and cannot exceed the initial expected residual value.

12. Exhibit A illustrates the application of accounting guidance in two examples that generate tax credits and tax benefits using the proportional amortization method. The first example illustrates the application of a standard project. The second example illustrates the application of accounting guidance in a project that has expected residual value and generates non-tax related benefits in addition to tax credits and other tax benefits using the proportional amortization method.

Application of Proportional Amortization Method

13. Under the proportional amortized cost method, the amortization of the investment is to be recognized in the income statement as an expense component of the net investment income calculation. Non-tax related benefits received from operations, or sale of the investment should be accounted for in accordance with paragraph 10.

14. Tax credits and other tax benefits, not to include amortization of the investment, shall be reflected as follows:

Note: The revisions adopted in agenda item 2024-18 revise paragraphs 14.a.i. through 14.a.iii. are not shown below as this exhibit intends to only reflect those changes made by 2022-14.

a. Tax credits shall be recognized in the period that they are allocated to the reporting entity for tax purposes:

i. Federal tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to federal taxes in accordance with *SSAP No. 101—Income Taxes*. Federal tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101.

ii. State tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested assets (not to be reported net).

iii. Use of tax credits carried forward in a future period shall be reflected as an offset to the corresponding income or premium tax in the tax reporting year in which the tax credit is utilized.

iv. Tax credits allocated from tax credit investments, as defined within this SSAP, and held by reporting entities meet the definition of assets as specified in SSAP No. 4 and are admitted assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits is subject to SSAP No. 101.

b. Federal tax benefits other than tax credits (e.g., tax benefits from investment depreciation) shall be recognized in the year allocated pursuant to SSAP No. 101. When utilized, the federal tax benefits are recognized as a component of income tax expense.

c. State tax benefits other than tax credits shall be recognized in the year allocated gross of any related state tax liabilities pursuant to SSAP No. 101. When utilized, the state tax benefits are recognized as a component of taxes, licenses, and fees.

Admittance of Tax Credit Investments

15. Although investments in tax credit programs do not represent investments that can be readily liquidated for policyholder claims, the reduction of tax liability or sale of allocated tax credits represents a benefit that supports admittance of these investments, but only if the tax credits will be received and can be utilized by the reporting entity. Investments in tax credit programs that will not result in any of the anticipated tax credits or that will result in tax credits which cannot be utilized or sold by the reporting entity shall be considered impaired and should refer to paragraphs 27 and 28.

16. Reporting entities shall, at initial investment, obtain a clean[3] fund level tax opinion[4] on the validity of the credits and structure of the underlying program and investment fund. Investments not supported by an initial tax

[3] While not quantified or defined in either the Internal Revenue Code or state regulations, common industry standards consider a "should" opinion to be the minimum degree of confidence associated with a clean tax opinion. For the purposes of this statement, a "should" opinion must represent a probability of success no less 70%. Any tax credit investment which receives a tax opinion with a degree of confidence less than "should" is to be nonadmitted.

opinion shall be nonadmitted. If the program is a permitted syndicated program with a yield guarantee, the opinion must verify that the investment and guarantee have been properly structured under IRS or state tax provisions and the guarantee does not disqualify the reporting entity from obtaining the tax credits.

17. Reporting entities shall annually obtain U.S. GAAP or U.S. tax basis audited financial statements on the investment fund. In the event audited U.S. GAAP or U.S. tax basis financial statements are not obtained or the audit receives an opinion other than unqualified, the asset shall be nonadmitted. If the audited financial statements are in-process but not completed as of the annual statement filing deadline, the reporting entity may admit the investment based on the results of the immediately preceding prior year audited financial statements. A lag in reporting shall be consistent from period to period.

a. Other tax credit investments – If the reporting entity has a tax credit investment which by virtue of its structure cannot be audited, the investment is exempt from the annual audit requirement. One example of this type of investment would be tax credit debt investments[5] which do not involve any amount of equity ownership as a component of the investment. This type of tax credit debt investment is exempt from the annual audit requirement, but the reporting entity is still required to obtain a clean tax opinion, in accordance with paragraph 16, to support admittance at initial investment.

Prospective Utilization Assessment

18. The prospective utilization assessment, as detailed below in paragraphs 19-21, must be performed annually by the reporting entity if any of the following circumstances exist in either the current or prior reporting period:

a. Reporting entity records a valuation allowance against a deferred tax asset (DTA) balance.

b. Reporting entity becomes aware of other facts and circumstances which indicate that it will, more likely than not, be unable to substantially utilize the unallocated tax credits. Such instances include, but are not limited to:

i. If the reporting entity holds an investment which allocates state premium tax credits and intends to decrease premium volume in that state, it may affect whether or not the unallocated tax credits in that state can be utilized.

ii. If the reporting entity holds an investment allocating state income tax credits and records a valuation allowance in its U.S. GAAP financial statements against state DTA balances, including the same state as the tax credit investment, it cannot ignore the circumstances that led to the valuation allowance, even though statutory accounting does not permit state DTAs.

19. Prospective Utilization Assessment – If any of the circumstances detailed in paragraph 18 exist, the reporting entity is required to assess the future utilization of the investment's unallocated tax credits against

[4] A fund level tax opinion for the purposes of this statement is defined as a full IRS Circular 230 tax opinion which covers from the fund level through to the underlying assets generating the tax credit benefits. The fund level is defined as the entity, or level, at which the investor comes directly into the investment without any intermediaries.

[5] Common examples of tax credit debt investments are Tax Credit Strips derived from tax credit bonds, Qualified Tax Credit Bonds, and Build America Tax Credit Bonds. Tax opinions received on these tax credit investments are also referred to as "bond counsels." Tax Credit Strips derived from tax equity investments would not qualify for the paragraph 17.a. carve out as the source of the stripped tax credits is auditable.

estimated tax liabilities and determine the extent to which it will be able to utilize the investment's unallocated tax credits over the life of the tax credits. If assessment projections identify that the investment's unallocated tax credits will exceed what can be utilized under IRS or state tax provisions, the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized within current, carryback, and carryforward periods. In making this assessment, the reporting entity is not permitted to assume increased operations (e.g., expanded product sales) beyond those allowed under prudent and feasible tax-planning strategies to conclude that additional federal or state tax liability will exist that would allow additional utilization of tax credits. A reporting entity may subsequently admit a previously nonadmitted tax credit investment, based on subsequent assessments in which the reporting entity determines that they will be able to utilize the unallocated tax credits.

20. Additional Admittance to Prospective Utilization Assessment – If the tax credit investment allocates tax credits with the following features, the reporting entity may perform a secondary assessment to determine if additional amounts of the tax credit investment nonadmitted under paragraph 19 can be admitted:

a. Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions shall admit up to the lesser of the proportional amortized cost or fair value of the unallocated tax credits.

b. Tax credit investments which allocate tax credits eligible for direct payment shall admit up to the lesser of the proportional amortized cost or the estimated proceeds from unallocated tax credits.

21. For tax credit investments which have an amortization timeframe greater than the tax credit allocation timeframe (as demonstrated in Exhibit A), the reporting entity would still, if required, perform the prospective utilization assessment but on the reporting entity's ability to utilize the remaining stream of anticipated tax benefits.

Future Contributions and Additional Tax Credits

22. Many tax credit investments require future contributions by the investor, that may be contingent on a variety of conditions, such as receiving representations, contract performance, meeting occupancy requirements, etc. A liability shall be recognized for delayed contributions which result in additional tax credits that are unconditional and legally binding, and a liability shall also be recognized for contributions which result in additional tax credits that are contingent upon a future event when that contingent event becomes probable pursuant to the loss contingency guidance in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. Liabilities or loss contingencies recognized for future contributions which result in additional tax credits shall be reported as 'Payable for Securities' until remitted or until the obligation is otherwise eliminated.

23. If a commitment to provide future contributions is not required to be recognized pursuant to paragraph 22, the commitment shall be disclosed in the notes to the financial statements with other commitments.

24. Additional contributions that do not result in additional tax credits for the reporting entity investor shall be immediately expensed as a component of net investment income.

25. If additional contributions result in additional tax credits for the reporting entity, the proportional amortization method for the tax credit investment shall be adjusted, on a prospective basis, to reflect the increased cost with the revised expected tax credits and other tax benefits.

26. In the event a reporting entity obtains additional tax credits without the reporting entity making additional contributions, the reporting entity shall not adjust the book/adjusted carrying value of the tax credit investment.

(The proportional amortization method shall not be adjusted to reflect the expected additional tax credits.) Rather, the tax credit shall be recognized when allocated pursuant to paragraph 14.

Impairment of Tax Credit Investments

27. Reporting entities with investments in tax credit programs shall complete and document an impairment analysis at each reporting period. For this analysis, the reporting entity shall compare the current book/adjusted carrying value to the fair value of the investment. (If fair value is not determinable, an entity can compare book/adjusted carrying value to the present value of future tax credits and other tax benefits discounted at a risk-free rate of return.) If book/adjusted carrying value is higher, the difference between book/adjusted carrying value and fair value shall be recognized as an other-than-temporary impairment (INT 06-07) to the tax credit investment. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in fair value.

28. An other-than-temporary impairment shall also be considered to have occurred if a previously allocated tax credit has been recaptured or if it is probable that future tax credits will not be allocated as expected. If a project no longer qualifies for tax credits, the entire investment, less any residual established at initial recognition, shall be written off as other-than-temporarily impaired. If the reporting entity experiences a tax credit recapture, the reporting entity shall assess whether future tax credits and other benefits will qualify for use by the reporting entity. If future credits will not be generated or will be subject to future recapture, then the reporting entity shall write-off the investment as other-than-temporarily impaired so that the resulting investment value only reflects expected qualifying tax credits and other benefits expected to be allocated. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries or revision to tax credit expectations.

29. Certain tax credit programs allocate variable amounts of tax credits (for example, clean energy production tax credit programs) which will result in regular differences between actual allocated tax credits and estimated tax credit allocations as calculated upon acquisition of the investment. Variable tax credits allocated in excess of estimates should be accounted for in accordance with paragraph 26.—. If the allocated variable tax credits are less than estimates by more than 10% or consistently allocate less than the estimated amounts over multiple allocation periods, then the reporting entity must either recognize an other-than-temporary impairment or specifically address within its impairment analysis the reason why consistently diminished tax credit returns do not represent an impairment event. Note that if the company determines it is probable that the total amount of anticipated variable tax credits will not be received, it would still be considered an other-than-temporary impairment in accordance with paragraph 28.

Disclosures

30. A reporting entity shall disclose information that enables users of its financial statements to understand the following information about its investments in projects that generate tax credits and other tax benefits from tax programs captured in scope of this statement:

a. The nature of its investments in projects that generate tax credits and other tax benefits.

b. The effect of the recognition and measurement of its investments in projects that generate tax credits and other tax benefits and the related tax credits on its financial position and results of operations.

31. To meet the objective of paragraph 30, a reporting entity shall disclose the following information about its investments in projects that generate tax credits and other tax benefits from a tax credit program in scope of this statement:

a. The amount of tax credits and other tax benefits recognized during the reporting period(s).

b. The balance of the investments recognized in the statement of financial position for the reporting period(s) presented.

c. The amount of investment amortization and non-income tax related activity recognized as a component of net investment income, and other returns allocated that were recognized outside of income tax expense.

d. An aggregate schedule of tax credits expected to be generated each year for the subsequent five years and thereafter, disaggregated by transferable/certificated and non-transferable.

e. Any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of contributions that are contingent commitments related to tax credit investments and the year(s) that contingent commitments are expected to be paid shall be disclosed.

32. The following disclosures shall be included if applicable to tax credit investments:

a. If the underlying project is currently subject to any regulatory reviews and the status of such review. (Example: Investigations by the housing authority.)

b. Significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project for investments in scope.

33. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:

a. A description of the impaired assets and the facts and circumstances leading to the impairment; and

b. The amount of the impairment and how fair value was determined.

34. The following disclosures pertain only to those tax credits allocated from tax credit investments and are unused as of the reporting period(s). For purposes of this disclosure, total unused tax credits represent the entire amount of tax credits available:

a. Carrying value of tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related tax liabilities by jurisdiction and in total.

b. Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable.

c. Method of estimating utilization of remaining tax credits or other projected recovery of the current carrying value.

d. Impairment amount recognized in the reporting period(s), if any.

e. Identify tax credits by transferable/certificated and non-transferable classifications and identify the admitted and nonadmitted portions of each classification.

35. Refer to the Preamble for further discussion regarding disclosure requirements.

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Relevant Literature

36. This statement adopts with modification *Accounting Standards Update (ASU) 2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. The ASU is modified for the following statutory concepts:

a. This statement is applicable to all federal and state tax credit programs earned through any tax credit investment structure that meets the requirements in paragraph 2. Under the ASU, use of the proportional amortization method is an election and only pertains to income tax equity investment structures in which the reporting entity does not exercise significant influence. With this statement, the U.S. GAAP election to use the proportional amortization method is rejected and use of proportional amortization for investments within the scope of this statement is required. The guidance is expanded for state premium tax credits.

b. Investments that meet the criteria of this statement are required to use a proportional amortization method as prescribed in this statement. This method requires the tax credits and benefits to be recognized in proportion to the percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be allocated by the reporting entity over the life of the investment. This statement requires a gross presentation on the financial statements. Under the ASU, a practical expedient is allowed for the calculation of proportional amortization but has been rejected with this statement.

c. Federal tax credits shall be recognized in the income statement as an offset to federal income taxes in the tax reporting year in which the tax credit is utilized in accordance with SSAP No. 101. State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized.

d. Tax benefits allocated, other than tax credits, shall be accounted for pursuant to SSAP No. 101. Amortization shall be reported as a component of net investment income.

e. Reporting entities shall follow the guidance in paragraphs 22 and 23 regarding the recognition of contingent commitments from SSAP No. 5R to equity contributions.~~—~~.

f. This statement has specific impairment and nonadmittance requirements.

g. For statutory accounting purposes, deferred taxes are not reported as a component of income from continuing operations in the income statement; rather deferred taxes are recognized as a separate component of gains and losses in unassigned funds (surplus).

h. Disclosures should be followed as indicated in the disclosures section in this statement.

i. The examples detailed in Exhibit A were modified to better illustrate the statutory accounting method for tax credit investments.

Effective Date and Transition

37. This statement is effective for reporting periods beginning on or after January 1, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance

previously in paragraph 3 of this statement superseded paragraph 1 of SSAP No. 48. In 2011, this guidance was moved to SSAP No. 48~~—*Joint Ventures, Partnerships and Limited Liability Companies*~~ and deleted from this statement. The original guidance included in this standard is retained for historical purposes in Issue Paper No. 125. The guidance from ASU 2014-01 is effective for reporting periods beginning on or after January 1, 2015, with early adoption permitted.

38. In March 2024, new SAP concept revisions, as detailed in Issue Paper No. ~~XXX~~170, were adopted. These revisions, effective January 1, 2025, expanded the scope of SSAP No. 93R to include all federal and state tax credit investment structures and provide new guidance on the accounting, recognition, and reporting of tax credit investment structures. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credit investment structures to reflect the guidance in the conceptual revisions. Additionally, all tax credit investment structures which fall within the scope of this statement not currently reported on Schedule BA are to be transferred to Schedule BA as of the effective date.

Glossary

39. The following definitions are provided for the purposes of this statement.

a. Unallocated tax credits – The portion of tax credits expected to be earned and allocated to the reporting entity through the tax credit investment structure.

b. Transferable/Certificated – The tax credits are certified for sale (certificated tax credits) or saleable through the execution of a state or federal transfer form (transferable tax credits).

~~i.~~c. More Likely Than Not – Refers to a likelihood of more than 50%.

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 125—Accounting for Low-Income Housing Tax Credit Property Investments*
- *Issue Paper No. ~~XX~~170—~~New Market~~ Tax Credits Project*

Ref #2022-14

EXHIBIT A – APPLICATION OF PROPORTIONAL AMORTIZATION METHOD

Example 1: Qualifying Tax Credit Investment Structure

On January 1, 20X1, ABC Insurance Company purchases a 5% equity stake in a tax credit investment structure for $100,000. The allocated tax credits are transferable, and ABC anticipates that all tax credits received will be fully utilized prior to expiration of the tax credit carryover period.

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.

2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).

3. The investor made a $100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.

4. The partnership finances the project cost of $4,000,000 with 50% equity and 50% debt.

5. The annual tax credit allocation (equal to 4% of the project's original cost) will be received for a period of 10 years.

6. The investor's tax rate is 40%.

7. For simplicity, the project will operate with break-even pretax cash flows including debt service during the first 15 years of operations.

8. The project's taxable loss will be equal to depreciation expense. The cumulative book loss (and thus the cumulative depreciation expense) recognized by the investor is limited to the $100,000 investment.

9. It is assumed that all requirements are met to retain allocable tax credits so there will be no recapture of tax credits.

10. The investor expects that the estimated residual value of the investment will be zero.

Ref #2022-14

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)
	100,000					
1	90,909	9,091	8,000	7,273	2,909	10,909
2	81,818	9,091	8,000	7,273	2,909	10,909
3	72,727	9,091	8,000	7,273	2,909	10,909
4	63,636	9,091	8,000	7,273	2,909	10,909
5	54,545	9,091	8,000	7,273	2,909	10,909
6	45,454	9,091	8,000	7,273	2,909	10,909
7	36,363	9,091	8,000	7,273	2,909	10,909
8	27,272	9,091	8,000	7,273	2,909	10,909
9	18,181	9,091	8,000	7,273	2,909	10,909
10	9,090	9,091	8,000	7,273	2,909	10,909
11	6,666	2,424		7,273	2,909	2,909
12	4,242	2,424		7,273	2,909	2,909
13	1,818	2,424		7,273	2,909	2,909
14	0	1,818		5,451	2,183	2,183
15	0					0
Total		100,000	80,000	100,000	40,000	120,000

(1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).

Initial Year			
	Tax credit investment	100,000	
	Cash		100,000
	To record the purchase of tax credit investment		

Years 1-10			
	Amortization expense	9,091	
	Tax credit investment		9,091
	Federal tax credits	8,000	
	Income tax expense		8,000
	To record annual receipt of allocated tax credits and proportional amortization of investment.		
	Income taxes payable	8,000	
	Federal tax credits		8,000
	To record annual utilization of allocated tax credits.		

Year 11-13			
	Amortization expense	2,424	
	Tax credit investment		2,424
	To record annual proportional amortization of tax credit investment.		

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Year 14			
	Amortization expense	1,818	
	Tax credit investment		1,818
	To record annual proportional amortization of tax credit investment.		

(2) Initial investment of $100,000 x (total tax benefits allocated during the year in Column (6) / total anticipated tax benefits over the life of the investment of $120,000).

(3) Annual 4% tax credit on $200,000 tax basis of the underlying assets.

(4) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of $100,000.

(5) Column (4) x 40% tax rate.

(6) Column (3) + Column (5).

Ref #2022-14

Example 2: Qualifying Tax Credit Investment Structure with Non-Income Tax Related Benefits

On January 1, 20X1, J&K Insurance Company purchased a 5% equity stake in a tax credit investment structure for $100,000. The allocated tax credits are non-transferable, and J&K anticipates that all tax credits received will be fully utilized prior to expiration of the tax credit carryover period.

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.

2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).

3. The investor made a $100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.

4. The partnership will receive production tax credits based on the energy the project produces. The credits will be allocated over a four-year period.

5. The tax equity investor will receive cash proceeds based on 2% of the project's cash generated during the life of the investment.

6. The investor's tax rate is 40%.

7. All requirements are met to retain allocable income tax credits such that there will be no recapture of income tax credits.

8. All of the conditions are met to require use of the proportional amortization method.

9. After 10 years, the tax equity investor has a right to require that the project sponsor purchase the tax equity investor's equity interest for a nominal amount. It is assumed that the Put option will be exercised and has a contractually agreed upon residual value of $1,000.

10. In Years 1-3 the investor is able to utilize all allocated tax credits in the same period they were received~~.~~. In Year 4, the investor is only able to utilize half of that year's allocated tax credit and defers the remainder for utilization in Year 5.

Ref #2022-14

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)	Non-Tax Related Cash Returns (7)
	100,000						
1	79,605	20,395	20,000	8,300	3,320	23,320	58
2	59,210	20,395	20,000	8,300	3,320	23,320	58
3	38,815	20,395	20,000	8,300	3,320	23,320	58
4	18,420	20,395	20,000	8,300	3,320	23,320	58
5	15,516	2,904		8,300	3,320	3,320	58
6	12,612	2,904		8,300	3,320	3,320	58
7	9,708	2,904		8,300	3,320	3,320	58
8	6,804	2,904		8,300	3,320	3,320	58
9	3,900	2,904		8,300	3,320	3,320	58
10	1,000	2,900		8,300	3,320	3,320	58
							580
Total	1,000	99,000	80,000	83,000	33,200	113,200	

(1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).

(2) Initial investment, less residual value of $1,000, of $99,000 x (total tax benefits allocated during the year in Column (6) / total anticipated tax benefits over the life of the investment of $113,200).

(3) These tax credits have been generated through the production of electricity, which generates production tax credits. The tax equity investor is not receiving renewable energy credits or carbon offsets.

(4) Depreciation /other tax losses passed on to the investor.

(5) Column (4) x 40% tax rate.

(6) Column (3) + Column (5).

(7) Non-income-tax-related benefits recognized in current-period pre-tax earnings when allocated. This represents the cash proceeds allocated by the tax equity investor based on the cash generated from the project

Initial Year			
	Tax credit investment	100,000	
	Cash		100,000
	To record the purchase of tax credit investment		
Years 1-3			
	Amortization expense	20,395	
	Tax credit investment		20,395
	Federal tax credits	20,000	
	Income tax expense		20,000
	Cash	58	

	Investment Income		58
	To record annual receipt of allocated tax credits, proportional amortization of investment, and receipt of non-tax cash returns.		
	Income taxes payable	20,000	
	Federal tax credits		20,000
	To record annual utilization of allocated tax credits.		

Year 4

	Amortization expense	20,395	
	Tax credit investment		20,395
	Federal tax credits	20,000	
	Income tax expense		20,000
	Cash	58	
	Investment Income		58
	To record annual receipt of allocated tax credits, proportional amortization of investment, and receipt of non-tax cash returns.		
	Income taxes payable	10,000	
	Federal tax credits		10,000
	Income tax expense	10,000	
	Deferred tax expense		10,000
	To record the portion of allocated tax credits utilized in the current year and defer the remainder. (Federal tax credit account should be mapped to the DTA reporting line as any balance remaining at year-end would be a DTA)		

Year 5

	Amortization expense	2,904	
	Tax credit investment		2,904
	Cash	58	
	Investment Income		58
	To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.		
	Income taxes payable	10,000	
	Federal tax credits		10,000
	Deferred tax expense	10,000	
	Income tax expense		10,000
	To record utilization of deferred tax credit.		

Years 6-9

	Amortization expense	2,904	
	Tax credit investment		2,904
	Cash	58	
	Investment Income		58
	To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.		

Year 10

Amortization expense	2,900		
Tax credit investment			2,900
Cash	58		
Investment Income			58
To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.			
Cash	1,000		
Tax credit investment			1,000
To record sale of interest in tax credit investment at stated residual value.			

~~**EXHIBIT A – LOW-INCOME HOUSING TAX CREDIT PROPERTY INVESTMENTS**~~

~~A Limited Partnership Investment in an Affordable Housing Project Accounted for Using the Amortized Cost Method (modified to include tax benefits and record amortization as a component of net investment income):~~

~~This exhibit is based on ASU 2014-01, paragraph 323-740-55-7 of the Accounting Standards Codification. The amount and timing of amortization in the proportional amortization method is consistent with the statutory modifications; therefore, the table incorporated in this exhibit is based on the proportional amortization table. The statutory income statement requires a gross presentation on the income statement, with proportional amortization of the initial cost of the investment in investment income and the tax credits and benefits included in income tax expense.~~

~~Terms:~~
~~Date of Investment: January 1, 20X1~~
~~Purchase Price of Investment: $100,000~~

~~Assumptions:~~

~~1. All cash flows (except initial investment) occur at the end of each year.~~

~~2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).~~

~~3. The investor made a $100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.~~

~~4. The partnership finances the project cost of $4,000,000 with 50% equity and 50% debt.~~

~~5. The annual tax credit allocation (equal to 4% of the project's original cost) will be received for a period of 10 years.~~

~~6. The investor's tax rate is 40%.~~

~~7. For simplicity, the project will operate with break-even pretax cash flows including debt service during the first 15 years of operations.~~

8. The project's taxable loss will be equal to depreciation expense. The cumulative book loss (and thus the cumulative depreciation expense) recognized by the investor is limited to the $100,000 investment.

9. It is assumed that all requirements are met to retain allocable tax credits so there will be no recapture of tax credits.

10. The investor expects that the estimated residual value of the investment will be zero.

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)
	100,000					
1	90,909	9,091	8,000	7,273	2,909	10,909
2	81,818	9,091	8,000	7,273	2,909	10,909
3	72,727	9,091	8,000	7,273	2,909	10,909
4	63,636	9,091	8,000	7,273	2,909	10,909
5	54,545	9,091	8,000	7,273	2,909	10,909
6	45,454	9,091	8,000	7,273	2,909	10,909
7	36,363	9,091	8,000	7,273	2,909	10,909
8	27,272	9,091	8,000	7,273	2,909	10,909
9	18,181	9,091	8,000	7,273	2,909	10,909
10	9,090	9,091	8,000	7,273	2,909	10,909
11	6,666	2,424		7,273	2,909	2,909
12	4,242	2,424		7,273	2,909	2,909
13	1,818	2,424		7,273	2,909	2,909
14	0	1,818		5,451	2,183	2,183
15	0					0
Total		100,000	80,000	100,000	40,000	120,000

(1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).

(2) Initial investment of $100,000 x (total tax benefits received during the year in Column (6)/total anticipated tax benefits over the life of the investment of $120,000).

(3) A 4% tax credit on $200,000 tax basis of the underlying assets.

(4) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of $100,000.

(5) Column (4) x 40% tax rate.

(6) Column (3) + Column (5).

Ref #2022-14

EXHIBIT B – TRACKED REVISIONS TO SSAP NO. 94R

Statements of Statutory Accounting Principles No. 94 – Revised

~~Transferable and Non-Transferable State~~ State and Federal Tax Credits

STATUS

Type of Issue	Common Area
Issued	June 12, 2006; Substantively revised December 7, 2011; Conceptually revised March 16, 2024.
Effective Date	December 31, 2006; Substantive revisions detailed in Issue Paper No. 145 effective December 31, 2011; Conceptual revisions detailed in Issue Paper No. 170 effective January 1, 2025.
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

STATUS ..... ERROR! BOOKMARK NOT DEFINED.
SCOPE OF STATEMENT ..... ERROR! BOOKMARK NOT DEFINED.
SUMMARY CONCLUSION ..... ERROR! BOOKMARK NOT DEFINED.
Accounting 49
Admittance 51
Impairment ..... **Error! Bookmark not defined.**
Disclosures ..... **Error! Bookmark not defined.**
Effective Date and Transition ..... **Error! Bookmark not defined.**
REFERENCES ..... ERROR! BOOKMARK NOT DEFINED.
Relevant Issue Papers ..... **Error! Bookmark not defined.**
EXHIBIT A – ACCOUNTING FOR TRANSFERABLE TAX CREDITS ..... ERROR! BOOKMARK NOT DEFINED.
EXHIBIT B – ACCOUNTING FOR NON-TRANSFERABLE TAX CREDITS .... ERROR! BOOKMARK NOT DEFINED.
~~STATUS ..... 1~~
~~SCOPE OF STATEMENT ..... 1~~
~~SUMMARY CONCLUSION ..... 2~~
~~Transferable State Tax Credits ..... 2~~
~~Non-Transferable State Tax Credits ..... 2~~
~~Acquisition ..... 3~~
~~Balance Sheet Treatment ..... 3~~
~~Income Statement Treatment ..... 3~~
~~Impairment ..... 3~~

Ref #2022-14

~~Disclosures....3~~
~~Effective Date and Transition....4~~
~~**REFERENCES....4**~~
~~Relevant Issue Papers....4~~
~~**EXHIBIT A—ACCOUNTING FOR TRANSFERABLE STATE TAX CREDITS....5**~~
~~**EXHIBIT B—ACCOUNTING FOR NON-TRANSFERABLE STATE TAX CREDITS....6**~~

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for state and federal tax credits that are purchased[fn] by the reporting entity. Tax credits allocated from investments NOT within the scope of *SSAP 93R—Investments in Tax Credit Structures* should refer to this statement for tax credit accounting guidance. Tax credits which have been awarded[fn] to the reporting entity are not within the scope of this statement and should refer to *SSAP No. 101—Income Taxes*.~~transferable and non-transferable state tax credits that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).~~

2. Tax credits allocated from, and investments in, tax credit structures, as discussed in SSAP No. 93R which involve investments in projects or programs that generate general business federal tax credits or state tax credits~~Investments in Low-Income Housing Tax Credits as discussed in *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*, which involve an investment by a reporting entity in a limited liability company or similar entity that earns tax credits as a consequence of its operating activities involving low-income housing developments and passes those tax credits to its investors~~, are not within the scope of this statement.

3. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors ~~(insurance companies)~~, in order to make venture capital investments in "qualified" businesses, are not within the scope of this statement. Although associated with tax credits, the ~~insurance company~~investors is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the ~~insurance company~~investors will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the ~~insurance company~~investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with *Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* and specific statutory accounting guidance addressing CAPCOs.

SUMMARY CONCLUSION

4. Both state and federal governments have enacted laws that create programs by which tax credits are granted to entities under certain specified conditions. The terms of these tax credits vary based on the issuing jurisdiction and from program to program.~~The criteria in paragraphs 5 and 6 are for transferable state tax credits (i.e., credits which may be sold or assigned). The criteria in paragraphs 7 and 8 are for non-transferable state tax credits (i.e., those which cannot be sold or assigned to other parties).~~

5. For the purposes of this statement, "tax credits" must be issued by either a federal or state governmental entity and must be refundable[fn] or can be applied against income tax or premium tax in accordance with permitted IRS or state tax provisions. Tax credits which may be sold or otherwise transferred to another entity are referred to as "transferable tax credits" whereas all other tax credits are referred to as "non-transferable."

~~**4. Transferable State Tax Credits**~~

~~5. Some states have enacted laws that create programs by which transferable state tax credits are granted to entities under certain specified conditions (e.g., an entity makes an investment in a particular industry). The terms of these state tax credits vary from state to state and, within a state, from program to program. However, many of these transferable state tax credit programs share the following four characteristics:~~

~~6. The tax credit is nonrefundable;~~

~~7. The holder of the transferable state tax credit may sell or otherwise transfer the transferable state tax credit to another entity, which can likewise resell or transfer the credit;~~

~~8. The transferable state tax credit will expire if not used by a predetermined date; and~~

~~9. The transferable state tax credit can be applied against either state income tax or state premium tax.~~

6. ~~For purposes of this statement, such programs will be referred to as "transferable state tax credits." The criteria in paragraphs 5.b., 5.c. and 5.d. must be present in order for the transferable state tax credit to receive the accounting treatment described in this statement.~~ When a reporting entity purchases a transferable or certificated ~~state~~ tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e. limited partnership). Direct payment elections are non-revocable and supersede the transferability of tax credits, as such, once the election has been made the tax credit would be considered a non-transferable tax credit.

Accounting

7. All tax credits within the scope of the statement must be recognized in the period they are allocated to or purchased by the reporting entity for tax purposes and must be recorded at face value upon receipt. Tax credits acquired at a premium or discount to their face value must record the gain/loss as follows:

a. Tax credits acquired at a discount must defer the gain as a miscellaneous liability upon receipt of the tax credit.

b. Tax credits acquired at a premium must realize the loss within the income statement upon receipt of the tax credit.

8. Deferred ~~G~~gains on ~~transferable and non-transferable state~~ tax credits are deferred until the value of the ~~state~~ tax credits utilized exceeds the initial acquisition cost of the ~~state~~ tax credits, or until the ~~state~~ tax credits are sold to other entities or the direct payment election is utilized and the payment(s) ~~received is greater than the book value~~exceed the initial acquisition cost.

9. Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:

Note: The revisions adopted in agenda item 2024-18 revise paragraphs 9.a. through 10 are not shown below as this exhibit is intended to only reflect the changes made by 2022-14.

a. Federal tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101 ~~*Income Taxes*~~. Federal tax credits that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101.

b. State tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested-assets (not to be reported net).

10. **Use of carried forward tax credits in a future period shall be reflected as an offset to the corresponding income or premium tax in the tax reporting year in which the tax credit is utilized.** **Non-Transferable State Tax Credits**

11. If the original or subsequent holder of the transferable tax credit is not able to transfer the tax credit, then the admissibility criteria in paragraph 8 for non-transferable tax credits apply. These non-transferable state tax credits share the following characteristics:

12. The tax credit is nonrefundable;

13. The successive holder of a state tax credit must redeem the credit by April 15 of the subsequent year to the entity's acquisition of the state tax credit and is not permitted to carry over, carry back, obtain a refund, sell or assign the credit;

14. The non-transferable state tax credit will expire if not used by the predetermined date; and

15. The non-transferable state tax credit can be applied against either state income tax or state premium tax.

16. The criteria in paragraphs 7.b., 7.c. and 7.d. must be present in order for the non-transferable state tax credit to receive the accounting treatment described in this statement.

17. Transferable and non-transferable state tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in SSAP No. 4—Assets and Nonadmitted Assets and are admissible assets to the extent that they comply with the requirements of this statement. If the criteria in paragraphs 6 or 8 are not met, the tax credits are nonadmitted.

18. Acquisition

19. Transferable and non-transferable state tax credits are recorded at cost at the date of acquisition.

20. Balance Sheet Treatment

21. Transferable and non-transferable state tax credits expected to be realized are initially recorded at cost.

22. Transferable and non-transferable state tax credits shall be established gross of any related state tax liabilities and reported in the category of other-than-invested-assets (not reported net).

23. As transferable and non-transferable state tax credits are redeemed, the carrying value of the tax credits is reduced dollar-for-dollar by the amount of state tax credits applied toward the reporting entity's applicable state tax liability.

24. Income Statement Treatment

~~25. Gains on transferable and non-transferable state tax credits are deferred until the value of the state tax credits utilized exceeds the cost of the state tax credits or until the state tax credits are sold to other entities and the payment received is greater than the book value.~~

~~26.~~10. ~~Losses on transferable and non-transferable state tax credits are recognized when known.~~

11. Gains and losses on ~~transferable and non-transferable state~~ tax credits are reflected in other income when realized.

12. A tax credit asset is considered purchased or allocated once the tax credit is received and available for use. If the reporting entity determines a commitment to purchase tax credits has met the definition of a liability, then the asset would be reported in other-than-invested assets as tax credits receivable.

Admittance

13. ~~Transferable and non-transferable t~~Tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits is subject to SSAP No. 101.

Impairment

~~27.~~14. An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the book/carrying ~~amount~~ value of the ~~transferable or non-transferable state~~ tax credits. ~~State t~~Tax credits should be evaluated for impairment at each reporting date.

~~28.~~15. When there is a decline in the realizability of a ~~transferable or non-transferable state~~ tax credit owned by the reporting entity that is other-than-temporary(INT 06-07), the asset shall be written down to the expected realizable amount and the amount of the write down shall be accounted for as a realized loss. The expected realizable value is the new cost basis.

~~29.~~16. The new cost basis shall not be changed for subsequent recoveries in realizability.

Disclosures

~~30.~~17. The following disclosures shall be made in the financial statements. For purposes of this disclosure, total unused ~~transferable and non-transferable state~~ tax credits represent the entire ~~transferable and non-transferable state~~ amount of tax credits available:

a. Carrying value of ~~transferable and non-transferable state~~ tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related ~~state~~ tax liabilities by ~~state~~ jurisdiction and in total.~~;~~

b. Total unused ~~transferable and non-transferable state~~ tax credits by ~~state~~jurisdiction, disaggregated by transferable/certificated and non-transferable.~~;~~

c. Method of estimating utilization of remaining ~~transferable and non-transferable state~~ tax credits or other projected recovery of the current carrying value.

d. Impairment amount recognized in the reporting period, if any.

e. Identify ~~state~~ tax credits by transferable/certificated and non-transferable classifications~~,~~ and identify the admitted and ~~N~~nonadmitted portions of each classification.

18. Any commitment or contingent commitment to purchase tax credits shall be disclosed.

Effective Date and Transition

19. This statement is effective for reporting periods ending on or after December 31, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Substantive revisions to 1) revising the title; 2) incorporating the criteria for non-transferable state tax credits as described in paragraphs 7 and 8; 3) adding a disclosure; and 4) updating terminology throughout the document as appropriate, are effective for reporting periods ending on or after December 31, 2011.

20. In March 2024, new SAP concept revisions, as detailed in Issue Paper No. 170, were adopted. These revisions, effective January 1, 2025, with early adoption permitted, expanded the scope of SSAP No. 94R to include all purchased, and certain allocated, state and federal income or premium tax credits and provide new guidance on the accounting, recognition, and reporting for state and federal tax credits within the scope of this statement. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credits within the scope of this statement to reflect the guidance in the conceptual revisions. For unutilized tax credits which were carried forward from prior to the effective date:

a. Federal tax credits in other-than-invested assets are to be transferred and reported as a DTA in accordance with SSAP No. 101.

b. Tax credits previously recorded at acquisition cost should be adjusted to reflect the face value of the acquired tax credits with the corresponding loss immediately recognized or the gain deferred.

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 126—Accounting for Transferable State Tax Credits*
- *Issue Paper No. 145—Accounting for Transferable and Non-Transferable State Tax Credits*
- *Issue Paper No. 170—Tax Credits Project*

Ref #2022-14

EXHIBIT A – ACCOUNTING FOR TRANSFERABLE ~~STATE~~ TAX CREDITS

On 1/1/X1 SAM Insurance Company purchased transferable state tax credits for a cost of $100,000. The transferable state tax credits are redeemable for $160,000 and expire at the end of 12/31/X4. SAM initially expects to utilize the tax credits before expiration in their state of domicile in the amount of $40,000 per year. In year X4, SAM sells the remaining $30,000 in transferable state tax credits for $20,000.

1/1/x1	Transferable state tax credits	160,000	
	Deferred gains on acquired tax credits		60,000
	Cash		100,000
	To record the purchase of the tax credits		
6/30/x1	Premium tax expense	40,000	
	Premium taxes payable to domiciliary state		40,000
	To record premium tax expense and accrue the liability in Year 1.		
10/1/x1	Premium tax payable	40,000	
	Transferable state tax credits		40,000
	To record the use of tax credits in Year 1. The reporting entity expects to be able to utilize remaining tax credits before expiration.		
6/30/x2	Premium tax expense	60,000	
	Premium taxes payable to domiciliary state		60,000
	To record premium tax expense and accrue the liability in Year 2.		
9/30/x2	Premium tax payable	60,000	
	Transferable state tax credits		60,000
	To record the use of taxes credits in Year 2. The reporting entity expects to be able to utilize remaining tax credits before expiration.		
6/30/x3	Premium tax expense	30,000	
	Premium taxes payable to domiciliary state		30,000
	To record premium tax expense and accrue the liability in Year 3.		
9/30/x3	Premium tax payable	30,000	
	Transferable state tax credits		30,000
	Deferred gains on acquired tax credits	30,000	
	Other income		30,000
	To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. The Company intends to sell the remaining tax credits in year 4.		
6/30/x4	Cash	20,000	
	Other income	10,000	
	Transferable state tax credits		30,000
	Deferred gains on acquired tax credits	30,000	
	Other income		30,000
	To record the sale of the remaining tax credits.		
~~1/1/x1~~	~~Transferable state tax credits~~	~~100,000~~	
	~~Cash~~		~~100,000~~

To record the purchase of the tax credits

6/30/x1	Premium tax expense	40,000	
	Premium taxes payable to domiciliary state		40,000
	To record premium tax expense and accrue the liability in Year 1.		
10/1/x1	Premium tax payable	40,000	
	Transferable state tax credits		40,000
	To record the use of tax credits in Year 1. The reporting entity expects to be able to utilize remaining tax credits before expiration.		
6/30/x2	Premium tax expense	60,000	
	Premium taxes payable to domiciliary state		60,000
	To record premium tax expense and accrue the liability in Year 2.		
9/30/x2	Premium tax payable	60,000	
	Transferable state tax credits		60,000
	To record the use of taxes credits in Year 2. The reporting entity expects to be able to utilize remaining tax credits before expiration.		
6/30/x3	Premium tax expense	30,000	
	Premium taxes payable to domiciliary state		30,000
	To record premium tax expense and accrue the liability in Year 3.		
9/30/x3	Premium tax payable	30,000	
	Other income		30,000
	To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. The Company intends to sell the remaining tax credits in year 4.		
6/30/x4	Cash	20,000	
	Other income		20,000
	To record the sale of the remaining tax credits.		

Ref #2022-14

EXHIBIT B – ACCOUNTING FOR NON-TRANSFERABLE ~~STATE~~ TAX CREDITS

On 7/1/X1 LJW Insurance Company purchased non-transferable ~~state~~ federal tax credits for a cost of $100,000. The ~~state~~ federal tax credits are redeemable for $110,000~~, are not transferable~~ and expire on, April 15, 20x2. LJW expects to utilize the tax credits before expiration in their state of domicile in the amount of $110,000. Tax credits are utilized pro-rata, approximately $36,666 every quarter, from acquisition date to expiration date. The illustration below assumes that LJW Insurance Company's quarterly income tax liability equals the amount of credits that were purchased.

7/1/x1	Federal tax credits	110,000	
	Deferred gains on acquired tax credits		10,000
	Cash		100,000
	To record the purchase of the tax credits		
9/30/x1	Income tax expense	36,666	
	Income taxes payable		36,666
	To record quarterly income tax liability.		
10/1/x1	Income taxes payable	36,666	
	Federal tax credits		36,666
	To record the use of tax credits in the quarter.		
12/31/x1	Income tax expense	36,666	
	Income taxes payable		36,666
	To record quarterly income tax liability.		
1/1/x2	Income taxes payable	36,666	
	Federal tax credits		36,666
	To record the use of tax credits in the quarter.		
3/31/x2	Income tax expense	36,668	
	Income taxes payable		36,668
	To record quarterly income tax liability.		
4/1/x2	Income taxes payable	36,668	
	Deferred gains on acquired tax credits	10,000	
	Other Income		10,000
	Federal tax credits		36,668
	To record the use of tax credits in the quarter.		
~~7/1/x1~~	~~State tax credits~~	~~100,000~~	
	~~Cash~~		~~100,000~~
	~~*To record the purchase of the tax credits*~~		
~~9/30/x1~~	~~Premium tax expense~~	~~200,000~~	
	~~Premium taxes payable to domiciliary state~~		~~200,000~~
	~~*To record premium tax expense and accrue the liability.*~~		
~~3/15/x2~~	~~Premium tax payable~~	~~110,000~~	

~~Other Income 10,000~~
~~State tax credits 100,000~~
~~*To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. (The additional $90,000 of premium taxes payable would still be due.)*~~

Ref #2022-14

EXHIBIT C – CONSISTENCY REVISIONS TO SSAP NO. 34 AND SSAP NO. 48

Revisions to ***SSAP No. 34—Investment Income Due and Accrued***

SCOPE OF STATEMENT

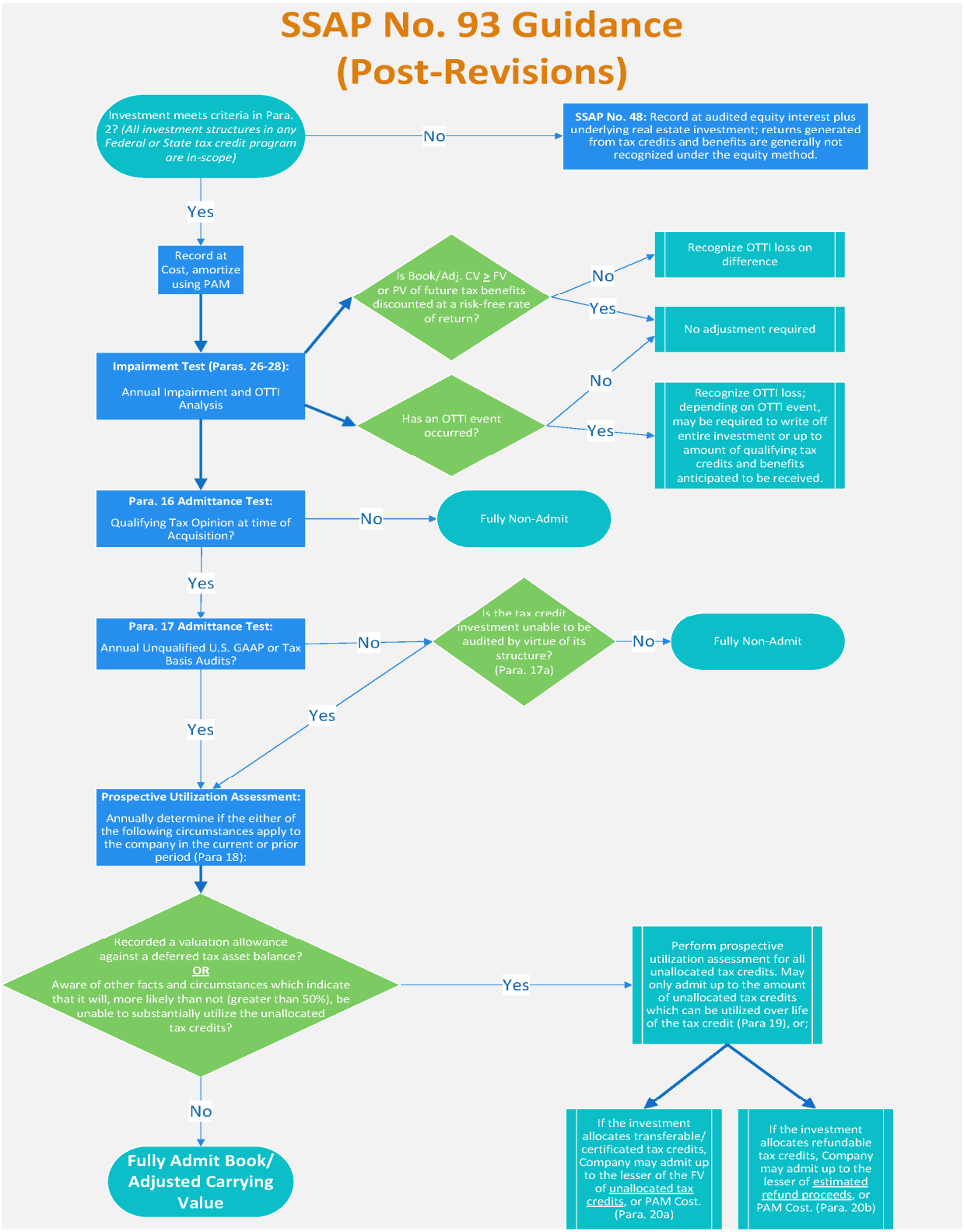
1. This statement establishes statutory accounting principles for investment income due and accrued. This statement does not address the accounting for tax credits allocated or purchased, which are discussed in *SSAP No. 93R—Investments in Tax Credit Structures* and *SSAP No. 94R—State and Federal Tax Credits*.

Revisions to ***SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies***

SCOPE OF STATEMENT

2. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*, whether or not it is considered to be controlled by or affiliated with the reporting entity. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in *SSAP No. 40R—Real Estate Investments*, are excluded from this statement. This statement does not address the accounting for investments in joint ventures, partnerships, and ~~and~~ limited liability companies that invest in tax credit programs ~~that~~ and are in the scope of~~hold an equity interest in either a tax syndication structure or tax equity fund invest in Low-Income Housing Tax Credit Properties as discussed in~~ *SSAP No. 93R—~~Low-Income Housing Tax Credit Property Investments~~Investments in Tax Credit Structures*.

EXHIBIT D – FLOWCHART OF ORDER OF OPERATIONS FOR REVISED SSAP NO. 93



Ref #2024-10

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

Issue: SSAP No. 56 – Book Value Separate Accounts

Check (applicable entity):

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

Description of Issue: This agenda item has been developed to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. The guidance in SSAP No. 56 predominantly focuses on separate account products in which the policyholder bears the investment risk. In those situations, the assets in the separate account are reported at fair value. SSAP No. 56, paragraph 17 provides limited guidance for assets supporting fund accumulation contracts (GICs), and this measurement method is generally referred to as "book value":

> Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.

NAIC staff are aware that there has been an increase in assets reported at "book value" within the separate account. These have been approved under state prescribed practices and/or interpretations that the reference for fund accumulation contracts captures pension risk transfer (PRT) or registered indexed-linked annuities (RILA) and other similar general-account type products that have been approved by the state of domicile for reporting in the separate account.

The guidance in *SSAP No. 56—Separate Accounts* focuses on the accounting and reporting for both the separate account and general account, with specific focus on what is captured within each account as well as transfers between the two accounts. As the focus is on fair value separate account assets, there is not guidance that details how transfers should occur between the separate and general accounts when the assets will be retained and reported at "book value." Particularly, the guidance does not address whether assets should be disposed / recognized at fair value when transferring between accounts, with subsequent reporting at the general account measurement guidance or whether the assets should be transferred at the "book value" that is reported in the existing account. The process has the potential to impact recognition of gains / losses and IMR, so it should be clearly detailed to ensure consistent reporting.

Existing Authoritative Literature:

- ***SSAP No. 56—Separate Accounts***

Although the entirety of SSAP No. 56 may be relevant, key paragraphs have been identified.

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Ref #2024-10

General Account Reporting

5. For those separate account contracts classified as life contracts under *SSAP No. 50—Classification of Insurance or Managed Care Contracts,* premiums and annuity considerations shall be recorded as income in the Summary of Operations of the general account, and as transfers to premiums and considerations in the separate account statement. Deposit-type contracts shall be recorded in the general account in accordance with *SSAP No. 52—Deposit-Type Contracts*.(INT 00-03) Charges (e.g., fees associated with investment management, administration, and contract guarantees) assessed on the separate accounts, as well as the net gain from operations of the separate account, shall be recorded as income in the Summary of Operations of the general account. Expenses relating to investment management, administration, and contract guarantees pertaining to separate account operations, as well as benefits and surrenders incurred on behalf of separate account contracts classified as life contracts, net transfers between separate accounts, commissions, and premium taxes (if any) shall be recorded as expenses in the Summary of Operations of the general account.

6. The general account shall include the total assets and liabilities, including transfers due or accrued, of any separate accounts business which it maintains and, therefore, the surplus, if any, of its separate accounts business. Transfers to the general account due or accrued shall be reported on a net basis so that the asset and the liability totals of the general account are not overstated. Changes in the surplus of the separate accounts business of an insurer, except for changes resulting from the net gain from operations of the separate account, shall be charged or credited directly to the unassigned funds (surplus) of the general account.

Separate Account Reporting

15. The separate accounts annual statement is concerned with the flow of funds related to investment activities and obligations of the separate accounts and with the transfer of funds between the separate account and the general account. As a result, the separate account statement shall report only the assets, liabilities, and operations of the separate account and shall not include general account expenses related to investment management, administration, or contract guarantees pertaining to separate account operations which are recorded in the general account.

16. The separate account records premiums, considerations (net of loading for sales charges such as commissions and premium taxes) and receipts (other than for net investment income and realized capital gains and losses) as income transfers from the general account. Net investment income and realized and unrealized capital gains and losses relating to the investment operations of the separate account are recorded as income in the Summary of Operations. When the contract provides for such, expenses and taxes associated with the separate account investment operations shall be deducted in the determination of net investment income. Deposits and withdrawals on deposit-type contracts shall be recorded in the Summary of Operations. Benefits and surrenders, reserve transfers, policy loans1, policyholder charges (e.g., fees associated with investment management, administration, and contract guarantees), and federal income taxes relating to the separate account are recorded as expense transfers to the general account in the Summary of Operations. The net change in aggregate reserves relating to separate account contracts is reported as an expense in the Summary of Operations.

17. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at fair value on the date of

[1] Policy loans related to separate account products shall follow the guidance in *SSAP No. 49—Policy Loans*. As detailed within SSAP No. 49, as part of the expense transfer, policy loans related to separate account products require a liquidation of the separate account assets to fund the loan issued by the general account. A transfer of assets from the separate account to the general account must have occurred to fund the policy loan issuance; otherwise the policy loan is nonadmitted in the general account.

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valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.

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):

1. Agenda Item 2022-19: Negative IMR introduced the discussion of interest maintenance reserve (IMR) within statutory accounting, specifically the guidance for nonadmittance of disallowed negative IMR. This agenda item resulted with *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. This INT permits admittance of disallowed negative IMR up to 10% of adjusted capital and surplus. The guidance permits admittance of the separate account negative IMR once the general account negative IMR has been admitted if the 10% limit has not been reached. The INT identifies that the concept of nonadmitted assets does not exist in the separate account, therefore the guidance includes application guidance for reversing prior actions that charged negative IMR to surplus before permitting the negative IMR to be recognized as an asset.

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 of the maintenance agenda categorized as a SAP clarification with direction to work with industry in determining current application / differences in interpretations to present to the Working Group along with suggested revisions to codify the approach within SSAP No. 56.

Staff Review Completed by: Julie Gann, NAIC Staff—February 2024

Updated Recommendation – 2024 Summer National Meeting:

The IMR Ad Hoc Subgroup has discussed a number of elements generating IMR, including the transfer of assets for cash between the general account (GA) and book value separate accounts (BVSA). This discussion is about transfers of assets where one account is purchasing existing assets held by the other account. This discussion received information from the ACLI noting that reporting entities have taken different approaches in the recording of these transfers, with three broad methods. All methods have a net zero surplus impact.

1. Market Value Offsetting Method:
   - Selling Account transfers the asset at fair value, with a realized gain or loss and allocation to IMR.
   - Purchasing Account records the asset at book value, with an adjustment to IMR for the difference between the fair value and book value.
   - This method has offsetting IMR impacts between the GA and BVSA, with a zero net impact to surplus.

2. Market Value SSAP No. 25 Method:
   - Selling Account transfers the asset at fair value. If resulting in a gain, the gain is offset by a *SSAP No. 25—Affiliates and Other Related Parties* adjustment (deferral until gain is permanent). Losses are recognized and allocated to IMR.
   - Purchasing Account records the asset at market value and records applicable amortized cost valuation adjustments over the term to maturity.

- This method results in different IMR treatment between the GA and BVSA based on whether the transaction resulted in a gain or loss. This method requires the reporting entity to track the asset and recognize the deferred gain once the asset is subsequently sold or matured in the BVSA.
- The reporting results in a net zero impact to surplus.

3. Book Value Method:
   - Both accounts (selling / purchasing) record the asset at book value.
   - There is no IMR impact and no surplus impact.
   - This method has raised concerns on whether a transfer from the GA at book value to an insulated BVSA, provides appropriate treatment to the GA policyholders.

The ACLI noted that although the above different approaches have been used, if the NAIC decides a standard accounting practice should be applied for transfers for cash between the GA and BVSA (and vice versa), the ACLI would support the market value offsetting IMR method. The rationale for supporting this method is as follows:

1. Market value transactions ensure the insurer is transacting to meet the fiduciary obligations of all policyholders (both GA and BVSA).
2. The method results in a net zero impact to surplus.
3. The method ensures a net zero impact to the combined GA and BVSA IMR in both gain and loss scenarios. (Although IMR is recognized in both accounts, the amounts recognized are offsetting.)
4. The method is more favorable operationally than the SSAP No. 25 method in which gains from the transfer must be deferred until a subsequent act that makes the transaction permanent (subsequent selling or maturity of asset).
5. The transfer at fair value combined with the offsetting IMR ensure that both the GA and BVSA retain the economic impact of the transaction without mingling the economics between the books.

The ACLI noted that this recommendation was only for transfers for cash between the GA and BVSA accounts and recommend additional research and discussion before creating a standard practice for less common transactions between the GA and BVSA, such as asset for asset swaps, contributions of assets to support deficiency in the SA and dividends of assets from the BVSA.

For the 2024 Summer National Meeting, NAIC staff recommend that the Working Group expose proposed revisions to SSAP No. 56 to clarify and expand guidance for book value separate accounts, and to incorporate accounting guidance for transfers of assets in exchange for cash between the general account and book value separate accounts. (Due to the design / order of SSAP No. 56, the entire SSAP has been reflected with the proposed edits shown as tracked changes.)

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed this agenda item and directed NAIC staff to work with industry in determining current application and differences in the treatment of book value assets within the separate account and to prepare suggested revisions to codify an approach within *SSAP No. 56—Separate Accounts*.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 56—Separate Accounts,* as shown below as "2024 Summer National Meeting Exposed Revisions," to allow for initial review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general and book-value separate accounts. The Working Group also requested

comments from regulators and industry on the noted questions, which are shown shaded in grey. This item was exposed with a longer comment period ending November 8, 2024. This item is not planned for detailed discussion at the 2024 Fall National Meeting but is planned for discussion in the interim after that meeting, or at the 2025 Spring National Meeting.

2024 Summer National Meeting Exposed Revisions to SSAP No. 56:
(Paragraph references have been shaded for subsequent confirmation.)

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for accounting and reporting for separate accounts in both the general account and separate account statements.

SUMMARY CONCLUSION

Introduction

2. Separate accounts are used to fund variable life insurance, variable annuities, modified guaranteed annuities and modified guaranteed life insurance, or various group contracts under pension or other employee benefit plans where funds are held in a separate account to support a liability. When separate accounts are established and filed accordingly, they may be used to fund guaranteed benefits. Separate account contracts may also be used to accumulate funds which are intended to be applied at some later time to provide life insurance or to accumulate proceeds applied under settlement or dividend options.

3. Assets held in separate accounts are owned by the insurer. All investment income and realized and unrealized capital gains and losses from assets allocated to a separate account, net of related investment expenses, are generally reflected in the separate account and, except for modified guaranteed annuities, modified guaranteed life insurance, and separate accounts established and filed to provide guaranteed benefits, investment performance is generally not guaranteed by the insurer. Charges relating to contract guarantees, administration, and investment management are deducted from separate accounts.

General Account Reporting

4. Insurance activities such as sales, underwriting and contract administration, premium collection and payment of premium taxes, claims, and benefits are functions of the insurance company distinct from the separate account and shall be accounted for as transactions of the general account.

5. For those separate account contracts classified as life contracts under *SSAP No. 50—Classification of Insurance or Managed Care Contracts*, premiums and annuity considerations shall be recorded as income in the Summary of Operations of the general account, and as transfers to premiums and considerations in the separate account statement. Deposit-type contracts shall be recorded in the general account in accordance with *SSAP No. 52—Deposit-Type Contracts*.[INT 00-03] Charges (e.g., fees associated with investment management, administration, and contract guarantees) assessed on the separate accounts, as well as the net gain from operations of the separate account, shall be recorded as income in the Summary of Operations of the general account. Expenses relating to investment management, administration, and contract guarantees pertaining to separate account operations, as well as benefits and surrenders incurred on behalf of separate account contracts classified as life contracts, net transfers between separate accounts, commissions, and premium taxes (if any) shall be recorded as expenses in the Summary of Operations of the general account.

6. The general account shall include the total assets and liabilities, including transfers due or accrued, of any separate accounts business which it maintains and, therefore, the surplus, if any, of its separate accounts business. Transfers to the general account due or accrued shall be reported on a net basis so that the asset and the liability totals of the general account are not overstated. Changes in the surplus of the separate accounts business of an

insurer, except for changes resulting from the net gain from operations of the separate account, shall be charged or credited directly to the unassigned funds (surplus) of the general account.

7. Where a variable annuity contract or variable life insurance contract contains a guaranteed minimum death benefit, any reserve liability for such death benefit provision shall be recorded and held in the general account based on the reserving guidance in paragraphs 25 and 26. Any differences between the benefit paid and the separate account asset value of the contract shall be charged against or credited to the general account in its net gain from operations.

8. Separate account surplus may not become negative. For example, for separate account contracts which have annuitized (i.e., contracts in the payout stage), lower than expected mortality on variable annuity contracts containing mortality guarantees may cause a deficiency in the investment funds underlying the contract reserves. Thus the general account incurs an expense and the separate account realizes revenue to cover the deficiency, if necessary. Conversely, excess funds from higher than expected mortality will result in mortality gains, which are included in the Summary of Operations of the separate account and are ultimately recorded as equity in net income from separate account operations as discussed in paragraph 5.

9. Separate account surplus created through the use of the commissioners' reserve valuation method (CRVM), commissioners' annuity reserve valuation method (CARVM), or other reserving methods, shall be reported by the general account as an unsettled transfer from the separate account. The net change on such transfers shall be included as a part of the net gain from operations in the general account.

10. Surplus funds transferred from the general account to the separate account, commonly referred to as seed money, and earnings accumulated thereon shall be reported as surplus in the separate accounts until transferred or repatriated to the general account. The transfer of such funds between the separate account and the general account shall be reported as surplus contributed or withdrawn during the year.

11. If an Asset Valuation Reserve (AVR) is required for investments held by separate accounts, it is combined with the general account AVR and accounted for in the general account financial statements (see *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*). The criteria for determining when an AVR is required for separate accounts are described in paragraph 18 of this statement.

12. Reporting entities collect fees for managing Separate Account Guaranteed Investment Contracts (GICs), Synthetic GICs, as well as participating separate account group annuities. These are in the form of administrative fees, risk fees and some investment management fees. For defined contribution business, these are in the form of fees related to mutual fund management. These fees are meant to offset expenses and generate some profit.

13. Amounts receivable from contractholders for separate account management fees meet the definition of assets as set forth in *SSAP No. 4—Assets and Nonadmitted Assets.*

14. An evaluation shall be made of the amounts receivable to determine any nonadmitted amounts. Next, an evaluation shall be made in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets,* to determine whether there is an impairment. This two-step process is set forth below:

a. Uncollected separate account management fees receivable over ninety days due shall be accounted for as a nonadmitted asset. Reporting entities shall begin aging the receivable when it is contractually required to be billed, or in the absence of contract specifications, when the reporting entity actually sends the bill to the contractholder;

b. Remaining amounts determined to be uncollectible shall be written off. If in accordance with SSAP No. 5R, it is "probable" the amount receivable is uncollectible, any uncollectible amount receivable

shall be written off against operations in the period such determination is made. If it is "reasonably possible" the amount receivable is uncollectible, the disclosure requirements outlined in SSAP No. 5R, paragraph 32, shall be made.

Separate Account Reporting

15. The separate accounts annual statement is concerned with the flow of funds related to investment activities and obligations of the separate accounts and with the transfer of funds between the separate account and the general account. As a result, the separate account statement shall report only the assets, liabilities, and operations of the separate account and shall not include general account expenses related to investment management, administration, or contract guarantees pertaining to separate account operations which are recorded in the general account.

16. The separate account records premiums, considerations (net of loading for sales charges such as commissions and premium taxes) and receipts (other than for net investment income and realized capital gains and losses) as income transfers from the general account. Net investment income and realized and unrealized capital gains and losses relating to the investment operations of the separate account are recorded as income in the Summary of Operations. When the contract provides for such, expenses and taxes associated with the separate account investment operations shall be deducted in the determination of net investment income. Deposits and withdrawals on deposit-type contracts shall be recorded in the Summary of Operations. Benefits and surrenders, reserve transfers, policy loans[2], policyholder charges (e.g., fees associated with investment management, administration, and contract guarantees), and federal income taxes relating to the separate account are recorded as expense transfers to the general account in the Summary of Operations. The net change in aggregate reserves relating to separate account contracts is reported as an expense in the Summary of Operations.

Measurement of Separate Account Assets

17. Assets supporting separate account contracts, except for contracts captured in paragraph 18, shall be reported at fair value, as determined under *SSAP No. 100—Fair Value*. Assets held in the separate account that reflect seed money from the general account shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted to be used as seed money in the separate account.

NAIC Staff Question: Information on the current measurement method for seed money is requested from industry. Although the guidance implies that seed money should be at book value, there is an assumption that companies may utilize fair value when included in a fair value separate account.

18. Assets supporting the following separate account contracts are permitted to be reported as if the assets were held in the general account. This measurement method is referred to as "book value." For these assets, measurement shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted in a book-value separate account. Separate account contracts that do not qualify in the following categories are not permitted at book value without a permitted or prescribed practice from the state of domicile.

a. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan

[2] Policy loans related to separate account products shall follow the guidance in *SSAP No. 49—Policy Loans*. As detailed within SSAP No. 49, as part of the expense transfer, policy loans related to separate account products require a liquidation of the separate account assets to fund the loan issued by the general account. A transfer of assets from the separate account to the general account must have occurred to fund the policy loan issuance; otherwise the policy loan is nonadmitted in the general account.

of deferred compensation, or established or maintained by an employer, will be recorded as if the assets were held in the general account.

b. With approval of the state insurance regulator, assets supporting insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account[3]. Unlike traditional separate account contracts, these contracts do not have investment directives determined by the contract holder and investment performance results are not attributed to a specific contract holder. Furthermore, unlike traditional separate account contracts, the insurance reporting entity (general account) is often ultimately obligated to provide contract benefits that are not directly tied to the performance of the underlying assets, resulting with the general account serving as an~~n~~ overall backstop or providing an implied guarantee, although a distinct performance guarantee is not specified (such as a minimum crediting rate, death benefit, etc.). Examples of contracts expected to be captured within this provision include pension risk transfer (PRT) contracts and registered index-linked annuity (RILA) contracts.

NAIC Staff Question: Feedback is requested on the named contracts (PRT and RILA) and whether other example contracts should be named.

~~18. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.~~

Assets Transfers Between the General Account and Separate Account

19. Asset transfers that reflect sales for cash between the general account and separate account shall occur at fair value[4]. Specified guidance based on the measurement method of the assets in the separate account are detailed in paragraphs 20-21.

20. Asset sales for cash between the general account and "fair value" separate accounts:

a. The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value.

i. Assets sold from the general account shall result in a realized gain or loss based on the difference between fair value and book adjusted carrying value (BACV). The realized gain or loss, if resulting from interest rate changes, shall be allocated to the general account IMR and amortized as if the asset had been sold to an unrelated third party. Realized gains from these transactions shall not be deferred pursuant to *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 17. Realized losses from credit-related factors shall be allocated to the AVR.

[3] The inclusion of this guidance does not imply support for these contracts within the separate account instead of the general account. The domiciliary state insurance regulator is responsible for assessing and approving separate account contract classification in accordance with state statutes.

[4] This guidance is specific to asset sales for cash and is not intended to reflect administration functions for the payment of amounts owed to separate account policyholders/contractholders that may occur from the general account with reimbursement from the separate account.

ii. Assets sold from a "fair value" separate account shall not result in a realized gain or loss.

b. The account (either general or separate account) purchasing the asset shall initially recognize the acquired asset at fair value. Subsequent measurements of the acquired asset should reflect the measurement method of the general or separate account.

21. Asset sales for cash between the general account and "book value" separate accounts:

a. Seller - The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value with recognition of a realized gain or loss. The realized gain or loss, if resulting from interest rate changes, shall be allocated to IMR and amortized in the selling account as if the asset had been sold to an unrelated third party. The transfer of an asset under this guidance that results in a gain shall not be deferred by the selling account pursuant to SSAP No. 25, paragraph 17, as such a deferral would create a mismatch in the IMR recognition between the general/separate accounts. Realized losses from credit-related factors shall be allocated to the AVR.

b. Purchaser - The account (either general or separate account) purchasing the asset shall recognize the acquired asset at the BACV from the selling account. The difference between the asset's fair value and the BACV shall be reported to IMR in the purchasing account.

c. The IMR activity between the selling account and the purchasing account shall be equal and offsetting resulting in a net zero impact in the IMR between the two accounts. IMR is tracked and reported separately in the general account and the separate account, but the net impact of the two accounts shall equal zero for each transfer transaction.

d. Subsequent to initial acquisition, the purchasing account shall account for the acquired asset pursuant to the measurement method of the applicable SSAP.

22. Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval. Any transfer that does not represent an asset sale for cash shall be specifically disclosed in both the general account and separate account as detailed in paragraph 34.e. This shall include, but not be limited to, the following transfers:

a. Asset to asset swaps

b. Contributions of general account assets to support separate account deficiencies

c. Dividends of assets from the separate account to the general account.

NAIC Staff Question: Additional information is requested from industry on these transfers. NAIC staff recommend that these areas be expanded with consistent guidance for the treatment of transfers.

Separate Account AVR and IMR Reporting

~~19.~~23. An AVR is ~~generally~~ required for separate accounts when the ~~insurer~~reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. ~~An AVR is required unless:~~

~~a. The asset default or fair value risk is borne directly by the policyholders; or~~

~~b. The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.~~

~~20.~~24. Assets supporting ~~traditional variable annuities and variable life insurance~~separate accounts that would qualify for separate account classification under U.S. GAAP ~~generally~~ do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, for those contracts an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account. ~~the insurer's equity interest in the investments of the separate account (e.g., seed money).~~

~~21.~~25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, ~~typical modified guaranteed contracts, market value adjusted contracts, and contracts with book value guarantees similar to contracts generally found in the general account do~~ require an AVR because the insurer is responsible for credit related asset or fair value loss.

~~22.~~26. "Book Value" separate accounts, pursuant to paragraph 18, ~~Certain separate accounts are also~~are required to maintain an Interest Maintenance Reserve (IMR). Separate accounts with assets reported at fair value are not required to maintain an IMR. ~~The IMR requirements for investments held in separate accounts are applied on an account by account basis.~~ Once~~If~~ an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

NAIC Staff Question: Clarification is requested to this guidance for seed money similar to the prior question.

~~23.~~ As detailed in the Annual Statement Instructions, ~~An IMR is required for separate accounts with assets recorded at book value, but is not required for separate accounts with assets recorded at fair value. For example, separate accounts for traditional variable annuities or variable life insurance do not require an IMR because assets and liabilities are valued at fair value.~~

~~24.~~27. ~~If an~~ Separate account IMR ~~is required for investments held by separate accounts, it~~ is kept separate from the general account IMR and accounted for in the separate accounts statement.

~~25.~~28. The AVR and IMR shall be calculated and reported in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the ~~NAIC~~ Annual Statement Instructions ~~for Life, Accident and Health Insurance Companies~~.

Policy Reserves

~~26.~~29. Statutory policy reserves shall be established for all contractual obligations of the insurer arising out of the provisions of the insurance contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. These statutory policy reserves are generally calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. Statutory policy reserves meet the definition of liabilities as defined in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets. The actuarial methodologies referred to in the following paragraph meet the criteria required for reasonable estimates in SSAP No. 5R.

~~27.~~30. The reserving methodologies and assumptions used in computation of policy reserves shall also meet the provisions of Appendices A-200, A-250, A-255, A-270; A-585, A-588, A-620, A-695, A-820, A-822 and the actuarial guidelines found in Appendix C of this Manual. Where separate account contracts have guaranteed elements, the basis for determining the value of the liability shall be consistent with the basis used for asset values (i.e., valuation interest rates as defined in Appendix A-820 shall be used when assets are recorded as if held in the

general account and current interest rates based on market rates shall be used when assets are recorded at fair value). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

~~28.~~31. Statutory policy reserves for those group annuity contracts or other contracts that, in whole or in part, establish the insurer's obligations by reference to a segregated portfolio of assets not owned by the insurer shall be established in accordance with the guidance in Appendix A-695. Statutory policy reserves for those contracts with nonlevel premiums or benefits, or contracts with secondary guarantees shall be established in accordance with the guidance in Appendix A-830. Statutory policy reserves for those group life contracts utilizing a separate account that meet the requirements outlined in paragraph 1 of Appendix A-200 shall be computed in accordance with the guidance in that appendix.

Other Liabilities

~~29.~~32. The separate account shall accrue as a liability, subject to contractual provisions, amounts payable, including, but not limited to:

a. Fees associated with investment management, administration, and contract guarantees;

b. Investment expenses;

c. Investment taxes, licenses, and fees (Investment taxes such as real estate taxes, licenses and fees (excluding federal income taxes) are usually paid directly by the separate account but may be transferred to the general account for payment);

d. Federal income taxes;

e. Unearned investment income;

f. Net transfer due to (from) the general account;

g. Remittances and items not allocated;

h. Payable for investments purchased;

i. Net adjustments in assets and liabilities due to foreign exchange rates.

~~**Seed Money**~~

~~30. When a new separate account is initiated, the insurer may make a temporary transfer of surplus funds commonly referred to as seed money to the separate account. Such funds and earnings accumulated thereon shall be reported as surplus in the separate accounts statement until transferred or repatriated to the general account. The transfer of such funds to and from the separate account shall be reported as surplus contributed or withdrawn during the year.~~

Disclosures

~~31.~~33. Paragraphs 31-35 detail the separate account disclosure requirements that shall be included within the Life, Accident and Health Annual Statement Blank. Paragraphs 36-38 detail the separate account disclosure requirements that shall be included within the Separate Account Annual Statement Blank.

~~32.~~34. The general account financial statement shall include detailed information on the reporting entity's separate account activity. These disclosures shall include:

a. A narrative of the general nature of the reporting entity's separate account business.

b. Identification of the separate account assets that are legally insulated from the general account claims.

c. Identification of the separate account products that have guarantees backed by the general account. This shall include:

i. Amount of risk charges paid by the separate account to the general account for the past five (5) years[5] as compensation for the risk taken by the general account; and

ii. Amount paid by the general account due to separate account guarantees during the past five (5) years.

iii. Separate account contracts where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products. These products often do not have stated yield or death benefit guarantees, but rather the general account serves as a final backstop if the separate account assets are insufficient to support the product obligations. This disclosure shall identify whether risk charges have been provided to the general account and affirm the inclusion of these separate account products within asset-liability testing.

d. Discussion of securities lending transactions and repurchase/reverse repurchase agreements within the separate account. ~~,~~ This shall include ~~separately including~~ the amount of any loaned securities within the separate account and the amount of any sold / acquired securities under repurchase agreements, and if policy and procedures for the separate account differ from the general account.

e. Discussion of asset transfers that did not reflect sales in exchange for cash between the general account and the separate account. This shall include, but not be limited to, asset-for-asset swaps, contributions of general account assets to support separate account deficiencies, and dividends of assets from the separate account to the general account.

~~33.~~35. For each grouping (as detailed in paragraph 33), the following shall be disclosed:

a. Premiums, considerations or deposits received during the year;

b. Reserves by the valuation basis of the investments supporting the reserves at the financial statement date. List reserves for separate accounts whose assets are carried at fair value separately from those whose assets are carried at amortized cost/book value;

c. Reserves by withdrawal characteristics, including whether or not the separate account is subject to discretionary withdrawal. For reserves subject to discretionary withdrawal, the below categories are included if applicable:

i. With market value adjustment;

[5] Reporting entities are permitted to prospectively 'build' the five-year disclosure. Thus, upon the first year of application of the disclosure requirements, reporting entities should illustrate one year of the disclosure requirement. In the second year, the reporting entity would disclose two years, and so forth until the disclosure includes five years of disclosures.

ii. at book value without market value adjustment and with surrender charge of 5% or more;

iii. at fair value;

iv. at book value without market value adjustment and with surrender charge of less than 5%;

d. Reserves for asset default risk, as described in paragraph 18.b., that are recorded in lieu of AVR.

~~34.~~36. For the disclosures required in paragraph 32, separate accounts shall be addressed in the following groupings (which are the same as those used for risk-based capital):

a. Separate Accounts with Guarantees:

1. Indexed separate accounts, which are invested to mirror an established index which is the basis of the guarantee;

2. Nonindexed separate accounts, with reserve interest rate at no greater than 4% and/or fund long-term interest guarantee in excess of a year that does not exceed 4%;

3. Nonindexed separate accounts, with reserve interest rate at greater than 4% and/or fund long-term interest guarantee in excess of a year that exceeds 4%.

b. Nonguaranteed Separate Accounts—Variable separate accounts, where the benefit is determined by the performance and/or fair value of the investments held in the separate account. Include variable accounts with incidental risks, nominal expense, and minimum death benefit guarantees.

~~35.~~37. Provide a reconciliation of the amount reported as transfers to and from separate accounts in the Summary of Operations of the separate accounts statement and the amount reported as net transfers to or from separate accounts in the Summary of Operations of the general accounts statement.

~~36.~~38. The disclosures in *SSAP No. 51R—Life Contracts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* related to the withdrawal characteristics of products include separate account products and shall be completed in the general account disclosures.

~~37.~~39. The Separate Account Annual Statement Blank shall include detailed information on the characteristics of the separate account assets, specifically categorizing separate account assets in accordance with the following characteristics:

a. Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated.

b. Aggregation of separate account assets from products registered with the SEC and separate account assets from products excluded from registration. In addition to the overall aggregation, this disclosure shall specifically identify separate account assets from private placement variable annuities (PPVA) and private placement life insurance (PPLI). The disclosures in this paragraph (36.b.) ~~are~~ were effective December 31, 2018.

c. Amount of separate account assets that represent seed money, other fees and expenses due to the general account, and additional required surplus amounts.[6] This disclosure shall include the amount of seed money and other fees and expenses currently included in the separate account, as well as the amount of seed money received and repaid to the general account during the current year. This disclosure shall also include information on insulation (if applicable)[7], the time duration for which seed money and other fees and expenses due the general account are retained in the separate account, and information on how whether seed money is invested pursuant to general account directives or in accordance with stated policies and procedures.

d. Identification of the separate account assets in which the investment directive is not determined by a contractholder. (In most instances, having multiple investment choices at the option of a contractholder would be considered a situation in which the investment directive is determined by a contractholder. This is not true for situations in which the asset is invested in a manner that mirrors the investment directives of the general account.) Situations in which the investment directive is not determined by the contractholder (and situations in which the reporting entity is the contractholder) shall include disclosure regarding whether the investments of the respective separate account assets, if included within the general account investments, would have resulted with the reporting entity exceeding any investment limitations imposed on the general account.

e. Identification of the separate account assets in which less than 100% of investment proceeds are attributed to a contractholder. This shall include identification of the separate account investment income attributed to the reporting entity during the reporting period and whether such income was transferred to the general account or reinvested within the separate account. Instances in which such income is reinvested within the separate account shall include disclosure on whether the subsequent investments, if categorized with investments in the general account, would have exceeded investment limitations imposed on the general account.

f. Identification of the assets supporting separate account contracts where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products. These products often do not have stated yield or death benefit guarantees, but the general account serves as a final backstop if the separate account assets are insufficient to support the product obligations or by the general account providing an inherent guarantee, although a distinct performance guarantee is not specified (such as a minimum crediting rate, death benefit, etc.).

~~38.~~40. For all separate account assets not reported at fair value, indicate the measurement basis (amortized cost or other method) for each asset (or asset class) and whether the measurement method ~~was grandfathered in under the transition~~is pursuant to the guidance in this SSAP, or whether the measurement method is allowed under a prescribed or permitted practice. This disclosure shall include a comparison of the assets' reported value to fair value with identification of the resulting unrealized gain/loss that would have been recorded if the assets had been reported at fair value.

41. For all separate accounts that include securities lending transactions, disclose the reporting entity's use and policy of securities lending within the separate account, including the amount of loaned securities from the separate

[6] Additional Required Surplus Amounts is defined as additional or permanent surplus that is required to be retained in the separate account in accordance with state law or regulations. These amounts should not include reinvested separate account investment proceeds that have not been allocated to separate account contract holders.

[7] As seed money is considered a temporary transfer of funds, it is generally not considered insulated.

account at the reporting date, the percentage of separate account assets lent as of that date, a description for which type of accounts (e.g., book value accounts, market value account accounts) are lent, if the separate account policyholder is notified or approves of such practices, the policy for requiring collateral, whether the collateral is restricted and the amount of collateral for transactions that extend beyond one year from the reporting date. This disclosure requires the entity to provide the following information as of the date of the statement of financial position: (1) the aggregate amount of contractually obligated open collateral positions (aggregate amount of securities at current fair value or cash received for which the borrower may request the return of on demand) and the aggregate amount of contractually obligated collateral positions under 30-day, 60-day, 90-day, and greater than 90-day terms, (2) the aggregate fair value of all securities acquired from the sale, trade and use of the accepted collateral (reinvested collateral), and (3) information about the sources and uses of that collateral.

42. For all separate accounts that include repurchase/reverse repurchase (repo) agreements, disclose the reporting entity's use and policies of repo agreements within the separate account, including the following: (1) fair value of securities sold or acquired, (2) cash collateral and the fair value of security collateral received or provided, (3) recognized liability or receivable for the return of collateral.

~~39.~~43. Identify all products reported as a separate account product under statutory accounting principles and identify whether each product was classified differently under GAAP. For products that resulted with different classifications between GAAP and SAP, identify the characteristic(s) of the product that prevented it from receiving a separate account classification under GAAP. This disclosure is applicable for all reporting entities. Thus, if GAAP financial statements were not filed, the reporting entity should complete this disclosure as if GAAP financials had been completed.

~~40.~~44. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~41.~~45. This statement rejects ASU 2022-05, Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, and AICPA Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1). The disclosure elements included within this SSAP are derived from the criteria for separate account reporting under SOP 03-1; however, this SSAP does not restrict separate account reporting pursuant to the criteria established in SOP 03-1.

~~42.~~46. This statement incorporates the requirements of Appendices A-200, A-250, A-255, A-270, A-585, A-588, A-620, A-695, A-812, A-820, A-821, A-822 the Actuarial Standards Board Actuarial Standards of Practice, and the actuarial guidelines found in Appendix C of this Manual.

Effective Date and Transition

~~43.~~47. This statement is effective for years beginning January 1, 2001. Contracts with assets held in a Separate Account that were issued in accordance with applicable state laws and regulations and issued prior to that effective date, for which assets and liabilities have been recorded using a consistent basis since issue, i.e., both assets and liabilities are recorded either as if in the general account ("book value") or as at fair value (current interest rates based on market rates shall be used for liabilities when assets are recorded at fair value), shall continue to be recorded using such basis until such time as the applicable contract terms or provisions are substantially changed, such as by a contract amendment modifying interest rate or withdrawal provisions. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. Changes that do not require change in the basis of recording would include: address changes, continued deposits, and other non-substantive changes such as these. For example, additional funds received after January 1, 2001 under contracts issued prior to January 1, 2001 may continue to be recorded using the basis in effect prior to January 1, 2001 until such time as a triggering change is made. A change

resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

~~44.~~48. Disclosure revisions adopted in September 2009 to paragraphs 30-39 shall initially be reported within the 2010 annual financial statements, with annual reporting thereafter.

REFERENCES

Other

- *NAIC Financial Condition Examiners Handbook*
- *Actuarial Standards Board Actuarial Standards of Practice*

Relevant Issue Papers

- *Issue Paper No. 89—Separate Accounts*
- *Issue Paper No. 110—Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts,* and *SSAP No. 56—Separate Accounts*

GLOSSARY

Guarantee represents an insurance company's general account contractual obligation to reimburse life insurance and annuity policyholders for their separate account investment losses including the return of principal, minimum crediting rates, minimum death, withdrawal, accumulation of income benefits and no-lapse guarantees, and for separate account mortality losses.

NAIC Staff Question: From informal discussions with industry reps, NAIC staff do not have the impression that the above definition of a guarantee captures the inherent guarantee when the general account is a backstop to the separate account. Rather, the above definition only captures explicit guarantees, such as a guaranteed yield, death benefit, etc. NAIC staff requests feedback on this interpretation and comments on whether revisions are necessary to ensure consistent interpretation with regulators and reporting entities.

Insulation is the legal protection of separate account assets equal to the reserves and supporting contract liabilities from the general account liabilities of the insurance enterprise ensuring that the separate account contract holder is not subjected to insurer default risk to the extent of their assets held in the separate account.

Risk Charge is the contractual amount the general account charges the separate account policyholders' account for compensation relating to the general account's guarantee on separate account assets or contract performance.

Total Maximum Guarantee is the difference between the total amount of liability the general account is subject to reimbursing as at the balance sheet date and the policyholder's contract value referenced by the guarantee (e.g., account value). For guarantees in the event of death, it is the minimum guaranteed amount available to the contractholder upon death in excess of the contractholder's contract value referenced by the guarantee (e.g., account balance) at the balance sheet date. For guarantees of amounts at annuitization, it is the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the contract value referenced by the guarantee (e.g., account balance).

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On December 17, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 56—Separate Accounts,* as shown below as "2024 December Exposed Revisions," for a comment period ending January 31, 2025. The revisions from the prior exposure are summarized in the following bullets, included within the tracked changes, and shaded for easy identification.

Revisions reflected from the 2024 Summer National Meeting Exposure:

- Paragraph 18b: Revisions to incorporate some ACLI comments to clarify that separate account contracts similar to contracts found in the general account, but do not directly pass all investment experience of the underlying assets to the policyholder, may be recorded as if the assets were held in the general account. The revisions delete the reference to the general account providing contract benefits not directly tied to performance of the underlying assets, with updated language that the general account may serve as an overall backstop or provide an implied guarantee. The revisions do not reflect the ACLI comments to remove the example contracts, and the examples have been expanded to include BOLI contracts as that was identified by the ACLI as another common contract reported at book value in the separate account.

- Paragraph 22: Revisions add guidance that other types of asset transfers shall be recorded at fair value. Although the ACLI did not agree with codifying the measurement approach guidance for these transfers and referred to existing separate account memorandums of understanding filed with the domestic regulator, this was supported in accordance with the statutory accounting consistency concept. By codifying a set measurement method, then deviations utilized and approved by the domiciliary regulator shall be detailed in Note 1. With this addition, comments are requested on whether additional guidance, particularly with the treatment of IMR for these transfers, shall be incorporated. The impact to IMR for these items was also noted to be included as a discussion topic at the IMR ad hoc group.

2024 December Exposed Revisions to SSAP No. 56:
(The tracked changes to paragraph 18b and 22 are shaded. Paragraph references have also been shaded for subsequent confirmation. Please note that footnote references are continuing the number from the prior exposure and will be updated to restart at 1 in the adoption version.)

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for accounting and reporting for separate accounts in both the general account and separate account statements.

SUMMARY CONCLUSION

Introduction

2. Separate accounts are used to fund variable life insurance, variable annuities, modified guaranteed annuities and modified guaranteed life insurance, or various group contracts under pension or other employee benefit plans where funds are held in a separate account to support a liability. When separate accounts are established and filed accordingly, they may be used to fund guaranteed benefits. Separate account contracts may also be used to accumulate funds which are intended to be applied at some later time to provide life insurance or to accumulate proceeds applied under settlement or dividend options.

3. Assets held in separate accounts are owned by the insurer. All investment income and realized and unrealized capital gains and losses from assets allocated to a separate account, net of related investment expenses, are generally reflected in the separate account and, except for modified guaranteed annuities, modified guaranteed life insurance, and separate accounts established and filed to provide guaranteed benefits, investment performance

is generally not guaranteed by the insurer. Charges relating to contract guarantees, administration, and investment management are deducted from separate accounts.

General Account Reporting

4. Insurance activities such as sales, underwriting and contract administration, premium collection and payment of premium taxes, claims, and benefits are functions of the insurance company distinct from the separate account and shall be accounted for as transactions of the general account.

5. For those separate account contracts classified as life contracts under *SSAP No. 50—Classification of Insurance or Managed Care Contracts*, premiums and annuity considerations shall be recorded as income in the Summary of Operations of the general account, and as transfers to premiums and considerations in the separate account statement. Deposit-type contracts shall be recorded in the general account in accordance with *SSAP No. 52—Deposit-Type Contracts*.(INT 00-03) Charges (e.g., fees associated with investment management, administration, and contract guarantees) assessed on the separate accounts, as well as the net gain from operations of the separate account, shall be recorded as income in the Summary of Operations of the general account. Expenses relating to investment management, administration, and contract guarantees pertaining to separate account operations, as well as benefits and surrenders incurred on behalf of separate account contracts classified as life contracts, net transfers between separate accounts, commissions, and premium taxes (if any) shall be recorded as expenses in the Summary of Operations of the general account.

6. The general account shall include the total assets and liabilities, including transfers due or accrued, of any separate accounts business which it maintains and, therefore, the surplus, if any, of its separate accounts business. Transfers to the general account due or accrued shall be reported on a net basis so that the asset and the liability totals of the general account are not overstated. Changes in the surplus of the separate accounts business of an insurer, except for changes resulting from the net gain from operations of the separate account, shall be charged or credited directly to the unassigned funds (surplus) of the general account.

7. Where a variable annuity contract or variable life insurance contract contains a guaranteed minimum death benefit, any reserve liability for such death benefit provision shall be recorded and held in the general account based on the reserving guidance in paragraphs 25 and 26. Any differences between the benefit paid and the separate account asset value of the contract shall be charged against or credited to the general account in its net gain from operations.

8. Separate account surplus may not become negative. For example, for separate account contracts which have annuitized (i.e., contracts in the payout stage), lower than expected mortality on variable annuity contracts containing mortality guarantees may cause a deficiency in the investment funds underlying the contract reserves. Thus the general account incurs an expense and the separate account realizes revenue to cover the deficiency, if necessary. Conversely, excess funds from higher than expected mortality will result in mortality gains, which are included in the Summary of Operations of the separate account and are ultimately recorded as equity in net income from separate account operations as discussed in paragraph 5.

9. Separate account surplus created through the use of the commissioners' reserve valuation method (CRVM), commissioners' annuity reserve valuation method (CARVM), or other reserving methods, shall be reported by the general account as an unsettled transfer from the separate account. The net change on such transfers shall be included as a part of the net gain from operations in the general account.

10. Surplus funds transferred from the general account to the separate account, commonly referred to as seed money, and earnings accumulated thereon shall be reported as surplus in the separate accounts until transferred or repatriated to the general account. The transfer of such funds between the separate account and the general account shall be reported as surplus contributed or withdrawn during the year.

11. If an Asset Valuation Reserve (AVR) is required for investments held by separate accounts, it is combined with the general account AVR and accounted for in the general account financial statements (see *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*). The criteria for determining when an AVR is required for separate accounts are described in paragraph 18 of this statement.

12. Reporting entities collect fees for managing Separate Account Guaranteed Investment Contracts (GICs), Synthetic GICs, as well as participating separate account group annuities. These are in the form of administrative fees, risk fees and some investment management fees. For defined contribution business, these are in the form of fees related to mutual fund management. These fees are meant to offset expenses and generate some profit.

13. Amounts receivable from contractholders for separate account management fees meet the definition of assets as set forth in *SSAP No. 4—Assets and Nonadmitted Assets.*

14. An evaluation shall be made of the amounts receivable to determine any nonadmitted amounts. Next, an evaluation shall be made in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets,* to determine whether there is an impairment. This two-step process is set forth below:

c. Uncollected separate account management fees receivable over ninety days due shall be accounted for as a nonadmitted asset. Reporting entities shall begin aging the receivable when it is contractually required to be billed, or in the absence of contract specifications, when the reporting entity actually sends the bill to the contractholder;

d. Remaining amounts determined to be uncollectible shall be written off. If in accordance with SSAP No. 5R, it is "probable" the amount receivable is uncollectible, any uncollectible amount receivable shall be written off against operations in the period such determination is made. If it is "reasonably possible" the amount receivable is uncollectible, the disclosure requirements outlined in SSAP No. 5R, paragraph 32, shall be made.

Separate Account Reporting

15. The separate accounts annual statement is concerned with the flow of funds related to investment activities and obligations of the separate accounts and with the transfer of funds between the separate account and the general account. As a result, the separate account statement shall report only the assets, liabilities, and operations of the separate account and shall not include general account expenses related to investment management, administration, or contract guarantees pertaining to separate account operations which are recorded in the general account.

16. The separate account records premiums, considerations (net of loading for sales charges such as commissions and premium taxes) and receipts (other than for net investment income and realized capital gains and losses) as income transfers from the general account. Net investment income and realized and unrealized capital gains and losses relating to the investment operations of the separate account are recorded as income in the Summary of Operations. When the contract provides for such, expenses and taxes associated with the separate account investment operations shall be deducted in the determination of net investment income. Deposits and withdrawals on deposit-type contracts shall be recorded in the Summary of Operations. Benefits and surrenders, reserve transfers, policy loans[8], policyholder charges (e.g., fees associated with investment management, administration, and contract guarantees), and federal income taxes relating to the separate account are recorded as expense transfers

[8] Policy loans related to separate account products shall follow the guidance in *SSAP No. 49—Policy Loans*. As detailed within SSAP No. 49, as part of the expense transfer, policy loans related to separate account products require a liquidation of the separate account assets to fund the loan issued by the general account. A transfer of assets from the separate account to the general account must have occurred to fund the policy loan issuance; otherwise the policy loan is nonadmitted in the general account.

to the general account in the Summary of Operations. The net change in aggregate reserves relating to separate account contracts is reported as an expense in the Summary of Operations.

Measurement of Separate Account Assets

17. Assets supporting separate account contracts, except for contracts captured in paragraph 18, shall be reported at fair value, as determined under *SSAP No. 100—Fair Value*. Assets held in the separate account that reflect seed money from the general account shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted to be used as seed money in the separate account.

18. Assets supporting the following separate account contracts are permitted to be reported as if the assets were held in the general account. This measurement method is referred to as "book value." For these assets, measurement shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted in a book-value separate account. Separate account contracts that do not qualify in the following categories are not permitted at book value without a permitted or prescribed practice from the state of domicile.

a. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation or established or maintained by an employer, will be recorded as if the assets were held in the general account.

b. With approval of the state insurance regulator, assets supporting insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account[9], but do not directly pass all investment experience of the underlying assets to the policyholder may be recorded as if the assets were held in the general account. Unlike traditional separate account contracts, these contracts do not have investment directives determined by the contract holder and investment performance results are not attributed to a specific contract holder. ~~Furthermore, unlike traditional separate account contracts, the insurance reporting entity (general account) is often ultimately obligated to provide contract benefits that are not directly tied to the performance of the underlying assets, resulting with~~ The general account may serve ~~serving~~ as an overall backstop or may provide ~~providing~~ an implied guarantee, although a distinct performance guarantee may ~~is~~ not be specified (such as a minimum crediting rate, death benefit, etc.). Examples of contracts expected to be captured within this provision include, but are not limited to, pension risk transfer (PRT) contracts, bank-owned life insurance (BOLI) and registered index-linked annuity (RILA) contracts.

NAIC Staff Question: Although the ACLI letter only identified BOLI contracts, NAIC staff wants to confirm whether COLI contracts should also be named. Generally, references to BOLI also include COLI, but NAIC staff is not certain whether both should be captured as a common book value separate account contracts.

~~18. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets~~

[9] The inclusion of this guidance does not imply support for these contracts within the separate account instead of the general account. The domiciliary state insurance regulator is responsible for assessing and approving separate account contract classification in accordance with state statutes.

~~supporting all other contractual benefits shall be recorded at fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.~~

Assets Transfers Between the General Account and Separate Account

19. Asset transfers that reflect sales for cash between the general account and separate account shall occur at fair value[10]. Specified guidance based on the measurement method of the assets in the separate account are detailed in paragraphs 20-21.

20. Asset sales for cash between the general account and "fair value" separate accounts:

a. The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value.

b. Assets sold from the general account shall result in a realized gain or loss based on the difference between fair value and book adjusted carrying value (BACV). The realized gain or loss, if resulting from interest rate changes, shall be allocated to the general account IMR and amortized as if the asset had been sold to an unrelated third party. Realized gains from these transactions shall not be deferred pursuant to *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 17. Realized losses from credit-related factors shall be allocated to the AVR.

c. Assets sold from a "fair value" separate account shall not result in a realized gain or loss.

d. The account (either general or separate account) purchasing the asset shall initially recognize the acquired asset at fair value. Subsequent measurements of the acquired asset should reflect the measurement method of the general or separate account.

21. Asset sales for cash between the general account and "book value" separate accounts:

a. Seller - The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value with recognition of a realized gain or loss. The realized gain or loss, if resulting from interest rate changes, shall be allocated to IMR and amortized in the selling account as if the asset had been sold to an unrelated third party. The transfer of an asset under this guidance that results in a gain shall not be deferred by the selling account pursuant to SSAP No. 25, paragraph 17, as such a deferral would create a mismatch in the IMR recognition between the general/separate accounts. Realized losses from credit-related factors shall be allocated to the AVR.

b. Purchaser - The account (either general or separate account) purchasing the asset shall recognize the acquired asset at the BACV from the selling account. The difference between the asset's fair value and the BACV shall be reported to IMR in the purchasing account.

c. The IMR activity between the selling account and the purchasing account shall be equal and offsetting resulting in a net zero impact in the IMR between the two accounts. IMR is tracked and reported separately in the general account and the separate account, but the net impact of the two accounts shall equal zero for each transfer transaction.

[10] This guidance is specific to asset sales for cash and is not intended to reflect administration functions for the payment of amounts owed to separate account policyholders/contractholders that may occur from the general account with reimbursement from the separate account.

d. Subsequent to initial acquisition, the purchasing account shall account for the acquired asset pursuant to the measurement method of the applicable SSAP.

22. Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value. Any transfer that does not represent an asset sale for cash shall be specifically disclosed in both the general account and separate account as detailed in paragraph 34.e. This shall include, but not be limited to, the following transfers:

a. Asset to asset swaps

b. Contributions of general account assets to support separate account deficiencies

c. Dividends of assets from the separate account to the general account.

NAIC Staff Question: With the revision requiring fair value measurement, comments are requested on whether additional guidance, particularly with the treatment of IMR, is needed.

Separate Account AVR and IMR Reporting

~~19.~~23. An AVR is ~~generally~~ required for separate accounts when the ~~insurer~~reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. ~~An AVR is required unless:~~

~~a. The asset default or fair value risk is borne directly by the policyholders; or~~

~~b. The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.~~

~~20.~~24. Assets supporting ~~traditional variable annuities and variable life insurance~~separate accounts that would qualify for separate account classification under U.S. GAAP ~~generally~~ do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, for those contracts an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account. ~~the insurer's equity interest in the investments of the separate account (e.g., seed money).~~

~~21.~~25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, ~~typical modified guaranteed contracts, market value adjusted contracts, and contracts with book value guarantees similar to contracts generally found in the general account do~~ require an AVR because the insurer is responsible for credit related asset or fair value loss.

~~22.~~26. "Book Value" separate accounts, pursuant to paragraph 18, ~~Certain separate accounts are also~~are required to maintain an Interest Maintenance Reserve (IMR). Separate accounts with assets reported at fair value are not required to maintain an IMR. ~~The IMR requirements for investments held in separate accounts are applied on an account by account basis.~~ Once~~If~~ an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

~~23.~~ As detailed in the Annual Statement Instructions, ~~An IMR is required for separate accounts with assets recorded at book value, but is not required for separate accounts with assets recorded at fair value. For example, separate accounts for traditional variable annuities or variable life insurance do not require an IMR because assets and liabilities are valued at fair value.~~

~~24.~~27. ~~If an~~ Separate account IMR ~~is required for investments held by separate accounts, it~~ is kept separate from the general account IMR and accounted for in the separate accounts statement.

~~25.~~28. The AVR and IMR shall be calculated and reported in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the ~~NAIC~~ Annual Statement Instructions ~~for Life, Accident and Health Insurance Companies~~.

Policy Reserves

~~26.~~29. Statutory policy reserves shall be established for all contractual obligations of the insurer arising out of the provisions of the insurance contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. These statutory policy reserves are generally calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. Statutory policy reserves meet the definition of liabilities as defined in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets. The actuarial methodologies referred to in the following paragraph meet the criteria required for reasonable estimates in SSAP No. 5R.

~~27.~~30. The reserving methodologies and assumptions used in computation of policy reserves shall also meet the provisions of Appendices A-200, A-250, A-255, A-270; A-585, A-588, A-620, A-695, A-820, A-822 and the actuarial guidelines found in Appendix C of this Manual. Where separate account contracts have guaranteed elements, the basis for determining the value of the liability shall be consistent with the basis used for asset values (i.e., valuation interest rates as defined in Appendix A-820 shall be used when assets are recorded as if held in the general account and current interest rates based on market rates shall be used when assets are recorded at fair value). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

~~28.~~31. Statutory policy reserves for those group annuity contracts or other contracts that, in whole or in part, establish the insurer's obligations by reference to a segregated portfolio of assets not owned by the insurer shall be established in accordance with the guidance in Appendix A-695. Statutory policy reserves for those contracts with nonlevel premiums or benefits, or contracts with secondary guarantees shall be established in accordance with the guidance in Appendix A-830. Statutory policy reserves for those group life contracts utilizing a separate account that meet the requirements outlined in paragraph 1 of Appendix A-200 shall be computed in accordance with the guidance in that appendix.

Other Liabilities

~~29.~~32. The separate account shall accrue as a liability, subject to contractual provisions, amounts payable, including, but not limited to:

j. Fees associated with investment management, administration, and contract guarantees;

k. Investment expenses;

l. Investment taxes, licenses, and fees (Investment taxes such as real estate taxes, licenses and fees (excluding federal income taxes) are usually paid directly by the separate account but may be transferred to the general account for payment);

m. Federal income taxes;

n. Unearned investment income;

o. Net transfer due to (from) the general account;

p. Remittances and items not allocated;

q. Payable for investments purchased;

r. Net adjustments in assets and liabilities due to foreign exchange rates.

~~**Seed Money**~~

~~30. When a new separate account is initiated, the insurer may make a temporary transfer of surplus funds commonly referred to as seed money to the separate account. Such funds and earnings accumulated thereon shall be reported as surplus in the separate accounts statement until transferred or repatriated to the general account. The transfer of such funds to and from the separate account shall be reported as surplus contributed or withdrawn during the year.~~

Disclosures

~~31.~~33. Paragraphs 31-35 detail the separate account disclosure requirements that shall be included within the Life, Accident and Health Annual Statement Blank. Paragraphs 36-38 detail the separate account disclosure requirements that shall be included within the Separate Account Annual Statement Blank.

~~32.~~34. The general account financial statement shall include detailed information on the reporting entity's separate account activity. These disclosures shall include:

a. A narrative of the general nature of the reporting entity's separate account business.

b. Identification of the separate account assets that are legally insulated from the general account claims.

c. Identification of the separate account products that have guarantees backed by the general account. This shall include:

i. Amount of risk charges paid by the separate account to the general account for the past five (5) years[11] as compensation for the risk taken by the general account; and

ii. Amount paid by the general account due to separate account guarantees during the past five (5) years.

iii. Separate account contracts where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products. These products often do not have stated yield or death benefit guarantees, but rather the general account serves as a final backstop if the separate account assets are insufficient to support the product obligations. This disclosure shall identify whether risk charges have been provided to the general account and affirm the inclusion of these separate account products within asset-liability testing.

d. Discussion of securities lending transactions and repurchase/reverse repurchase agreements within the separate account. ~~,~~ This shall include ~~separately including~~ the amount of any loaned securities

[11] Reporting entities are permitted to prospectively 'build' the five-year disclosure. Thus, upon the first year of application of the disclosure requirements, reporting entities should illustrate one year of the disclosure requirement. In the second year, the reporting entity would disclose two years, and so forth until the disclosure includes five years of disclosures.

within the separate account and the amount of any sold / acquired securities under repurchase agreements, and if policy and procedures for the separate account differ from the general account.

e. Discussion of asset transfers that did not reflect sales in exchange for cash between the general account and the separate account. This shall include, but not be limited to, asset-for-asset swaps, contributions of general account assets to support separate account deficiencies, and dividends of assets from the separate account to the general account.

~~33.~~35. For each grouping (as detailed in paragraph 33), the following shall be disclosed:

a. Premiums, considerations or deposits received during the year;

b. Reserves by the valuation basis of the investments supporting the reserves at the financial statement date. List reserves for separate accounts whose assets are carried at fair value separately from those whose assets are carried at amortized cost/book value;

c. Reserves by withdrawal characteristics, including whether or not the separate account is subject to discretionary withdrawal. For reserves subject to discretionary withdrawal, the below categories are included if applicable:

v. With market value adjustment;

vi. at book value without market value adjustment and with surrender charge of 5% or more;

vii. at fair value;

viii. at book value without market value adjustment and with surrender charge of less than 5%;

d. Reserves for asset default risk, as described in paragraph 18.b., that are recorded in lieu of AVR.

~~34.~~36. For the disclosures required in paragraph 32, separate accounts shall be addressed in the following groupings (which are the same as those used for risk-based capital):

a. Separate Accounts with Guarantees:

1. Indexed separate accounts, which are invested to mirror an established index which is the basis of the guarantee;

2. Nonindexed separate accounts, with reserve interest rate at no greater than 4% and/or fund long-term interest guarantee in excess of a year that does not exceed 4%;

3. Nonindexed separate accounts, with reserve interest rate at greater than 4% and/or fund long-term interest guarantee in excess of a year that exceeds 4%.

b. Nonguaranteed Separate Accounts—Variable separate accounts, where the benefit is determined by the performance and/or fair value of the investments held in the separate account. Include variable accounts with incidental risks, nominal expense, and minimum death benefit guarantees.

~~35.~~37. Provide a reconciliation of the amount reported as transfers to and from separate accounts in the Summary of Operations of the separate accounts statement and the amount reported as net transfers to or from separate accounts in the Summary of Operations of the general accounts statement.

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~~36.~~38. The disclosures in *SSAP No. 51R—Life Contracts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* related to the withdrawal characteristics of products include separate account products and shall be completed in the general account disclosures.

~~37.~~39. The Separate Account Annual Statement Blank shall include detailed information on the characteristics of the separate account assets, specifically categorizing separate account assets in accordance with the following characteristics:

a. Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated.

b. Aggregation of separate account assets from products registered with the SEC and separate account assets from products excluded from registration. In addition to the overall aggregation, this disclosure shall specifically identify separate account assets from private placement variable annuities (PPVA) and private placement life insurance (PPLI). The disclosures in this paragraph (36.b.) ~~are~~ were effective December 31, 2018.

c. Amount of separate account assets that represent seed money, other fees and expenses due to the general account, and additional required surplus amounts.[12] This disclosure shall include the amount of seed money and other fees and expenses currently included in the separate account, as well as the amount of seed money received and repaid to the general account during the current year. This disclosure shall also include information on insulation (if applicable)[13], the time duration for which seed money and other fees and expenses due the general account are retained in the separate account, and information on how whether seed money is invested pursuant to general account directives or in accordance with stated policies and procedures.

d. Identification of the separate account assets in which the investment directive is not determined by a contractholder. (In most instances, having multiple investment choices at the option of a contractholder would be considered a situation in which the investment directive is determined by a contractholder. This is not true for situations in which the asset is invested in a manner that mirrors the investment directives of the general account.) Situations in which the investment directive is not determined by the contractholder (and situations in which the reporting entity is the contractholder) shall include disclosure regarding whether the investments of the respective separate account assets, if included within the general account investments, would have resulted with the reporting entity exceeding any investment limitations imposed on the general account.

e. Identification of the separate account assets in which less than 100% of investment proceeds are attributed to a contractholder. This shall include identification of the separate account investment income attributed to the reporting entity during the reporting period and whether such income was transferred to the general account or reinvested within the separate account. Instances in which such income is reinvested within the separate account shall include disclosure on whether the subsequent investments, if categorized with investments in the general account, would have exceeded investment limitations imposed on the general account.

[12] Additional Required Surplus Amounts is defined as additional or permanent surplus that is required to be retained in the separate account in accordance with state law or regulations. These amounts should not include reinvested separate account investment proceeds that have not been allocated to separate account contract holders.

[13] As seed money is considered a temporary transfer of funds, it is generally not considered insulated.

f. Identification of the assets supporting separate account contracts where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products. These products often do not have stated yield or death benefit guarantees, but the general account serves as a final backstop if the separate account assets are insufficient to support the product obligations or by the general account providing an inherent guarantee, although a distinct performance guarantee is not specified (such as a minimum crediting rate, death benefit, etc.).

~~38.~~40. For all separate account assets not reported at fair value, indicate the measurement basis (amortized cost or other method) for each asset (or asset class) and whether the measurement method ~~was grandfathered in under the transition~~is pursuant to the guidance in this SSAP, or whether the measurement method is allowed under a prescribed or permitted practice. This disclosure shall include a comparison of the assets' reported value to fair value with identification of the resulting unrealized gain/loss that would have been recorded if the assets had been reported at fair value.

41. For all separate accounts that include securities lending transactions, disclose the reporting entity's use and policy of securities lending within the separate account, including the amount of loaned securities from the separate account at the reporting date, the percentage of separate account assets lent as of that date, a description for which type of accounts (e.g., book value accounts, market value account accounts) are lent, if the separate account policyholder is notified or approves of such practices, the policy for requiring collateral, whether the collateral is restricted and the amount of collateral for transactions that extend beyond one year from the reporting date. This disclosure requires the entity to provide the following information as of the date of the statement of financial position: (1) the aggregate amount of contractually obligated open collateral positions (aggregate amount of securities at current fair value or cash received for which the borrower may request the return of on demand) and the aggregate amount of contractually obligated collateral positions under 30-day, 60-day, 90-day, and greater than 90-day terms, (2) the aggregate fair value of all securities acquired from the sale, trade and use of the accepted collateral (reinvested collateral), and (3) information about the sources and uses of that collateral.

42. For all separate accounts that include repurchase/reverse repurchase (repo) agreements, disclose the reporting entity's use and policies of repo agreements within the separate account, including the following: (1) fair value of securities sold or acquired, (2) cash collateral and the fair value of security collateral received or provided, (3) recognized liability or receivable for the return of collateral.

~~39.~~43. Identify all products reported as a separate account product under statutory accounting principles and identify whether each product was classified differently under GAAP. For products that resulted with different classifications between GAAP and SAP, identify the characteristic(s) of the product that prevented it from receiving a separate account classification under GAAP. This disclosure is applicable for all reporting entities. Thus, if GAAP financial statements were not filed, the reporting entity should complete this disclosure as if GAAP financials had been completed.

~~40.~~44. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~41.~~45. This statement rejects ASU 2022-05, Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, and AICPA Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1). The disclosure elements included within this SSAP are derived from the criteria for separate account reporting under SOP 03-1; however, this SSAP does not restrict separate account reporting pursuant to the criteria established in SOP 03-1.

~~42.~~46. This statement incorporates the requirements of Appendices A-200, A-250, A-255, A-270, A-585, A-588, A-620, A-695, A-812, A-820, A-821, A-822 the Actuarial Standards Board Actuarial Standards of Practice, and the actuarial guidelines found in Appendix C of this Manual.

Effective Date and Transition

~~43.~~47. This statement is effective for years beginning January 1, 2001. Contracts with assets held in a Separate Account that were issued in accordance with applicable state laws and regulations and issued prior to that effective date, for which assets and liabilities have been recorded using a consistent basis since issue, i.e., both assets and liabilities are recorded either as if in the general account ("book value") or as at fair value (current interest rates based on market rates shall be used for liabilities when assets are recorded at fair value), shall continue to be recorded using such basis until such time as the applicable contract terms or provisions are substantially changed, such as by a contract amendment modifying interest rate or withdrawal provisions. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. Changes that do not require change in the basis of recording would include: address changes, continued deposits, and other non-substantive changes such as these. For example, additional funds received after January 1, 2001 under contracts issued prior to January 1, 2001 may continue to be recorded using the basis in effect prior to January 1, 2001 until such time as a triggering change is made. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

~~44.~~48. Disclosure revisions adopted in September 2009 to paragraphs 30-39 shall initially be reported within the 2010 annual financial statements, with annual reporting thereafter.

REFERENCES

Other

- *NAIC Financial Condition Examiners Handbook*
- *Actuarial Standards Board Actuarial Standards of Practice*

Relevant Issue Papers

- *Issue Paper No. 89—Separate Accounts*
- *Issue Paper No. 110—Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts,* and *SSAP No. 56—Separate Accounts*

GLOSSARY

Guarantee represents an insurance company's general account contractual obligation to reimburse life insurance and annuity policyholders for their separate account investment losses including the return of principal, minimum crediting rates, minimum death, withdrawal, accumulation of income benefits and no-lapse guarantees, and for separate account mortality losses.

Insulation is the legal protection of separate account assets equal to the reserves and supporting contract liabilities from the general account liabilities of the insurance enterprise ensuring that the separate account contract holder is not subjected to insurer default risk to the extent of their assets held in the separate account.

Risk Charge is the contractual amount the general account charges the separate account policyholders' account for compensation relating to the general account's guarantee on separate account assets or contract performance.

Total Maximum Guarantee is the difference between the total amount of liability the general account is subject to reimbursing as at the balance sheet date and the policyholder's contract value referenced by the guarantee (e.g., account value). For guarantees in the event of death, it is the minimum guaranteed amount available to the contractholder upon death in excess of the contractholder's contract value referenced by the guarantee (e.g., account balance) at the balance sheet date. For guarantees of amounts at annuitization, it is the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the contract value referenced by the guarantee (e.g., account balance).

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to *SSAP No. 56—Separate Accounts* with an effective date of January 1, 2026, with early adoption permitted. The revisions clarify the measurement method guidance as well as prescribe guidance for how transfers to/from the general account and separate account shall be recognized. The revisions were adopted with limited changes from the prior exposure, as detailed in the following bullets, but the full adopted revisions to SSAP No. 56 are shown below:

- Paragraph 22 was revised to incorporate language for the treatment of IMR, referring to the language in paragraph 20 & 21.

- Paragraph 24 was revised to exclude contracts captured in paragraph 18 instead of referring to products that would be captured as separate accounts products under U.S. GAAP.

- Paragraph 49 was added to incorporate the effective date language.

Adopted Revisions to SSAP No. 56:

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for accounting and reporting for separate accounts in both the general account and separate account statements.

SUMMARY CONCLUSION

Introduction

2. Separate accounts are used to fund variable life insurance, variable annuities, modified guaranteed annuities and modified guaranteed life insurance, or various group contracts under pension or other employee benefit plans where funds are held in a separate account to support a liability. When separate accounts are established and filed accordingly, they may be used to fund guaranteed benefits. Separate account contracts may also be used to accumulate funds which are intended to be applied at some later time to provide life insurance or to accumulate proceeds applied under settlement or dividend options.

3. Assets held in separate accounts are owned by the insurer. All investment income and realized and unrealized capital gains and losses from assets allocated to a separate account, net of related investment expenses, are generally reflected in the separate account and, except for modified guaranteed annuities, modified guaranteed life insurance, and separate accounts established and filed to provide guaranteed benefits, investment performance is generally not guaranteed by the insurer. Charges relating to contract guarantees, administration, and investment management are deducted from separate accounts.

General Account Reporting

4. Insurance activities such as sales, underwriting and contract administration, premium collection and payment of premium taxes, claims, and benefits are functions of the insurance company distinct from the separate account and shall be accounted for as transactions of the general account.

5. For those separate account contracts classified as life contracts under *SSAP No. 50—Classification of Insurance or Managed Care Contracts*, premiums and annuity considerations shall be recorded as income in the Summary of Operations of the general account, and as transfers to premiums and considerations in the separate account statement. Deposit-type contracts shall be recorded in the general account in accordance with *SSAP No. 52—Deposit-Type Contracts*.(INT 00-03) Charges (e.g., fees associated with investment management, administration, and contract guarantees) assessed on the separate accounts, as well as the net gain from operations of the separate account, shall be recorded as income in the Summary of Operations of the general account. Expenses relating to investment management, administration, and contract guarantees pertaining to separate account operations, as well as benefits and surrenders incurred on behalf of separate account contracts classified as life contracts, net transfers between separate accounts, commissions, and premium taxes (if any) shall be recorded as expenses in the Summary of Operations of the general account.

6. The general account shall include the total assets and liabilities, including transfers due or accrued, of any separate accounts business which it maintains and, therefore, the surplus, if any, of its separate accounts business. Transfers to the general account due or accrued shall be reported on a net basis so that the asset and the liability totals of the general account are not overstated. Changes in the surplus of the separate accounts business of an insurer, except for changes resulting from the net gain from operations of the separate account, shall be charged or credited directly to the unassigned funds (surplus) of the general account.

7. Where a variable annuity contract or variable life insurance contract contains a guaranteed minimum death benefit, any reserve liability for such death benefit provision shall be recorded and held in the general account based on the reserving guidance in paragraphs ~~25~~ 29 and ~~26~~30. Any differences between the benefit paid and the separate account asset value of the contract shall be charged against or credited to the general account in its net gain from operations.

8. Separate account surplus may not become negative. For example, for separate account contracts which have annuitized (i.e., contracts in the payout stage), lower than expected mortality on variable annuity contracts containing mortality guarantees may cause a deficiency in the investment funds underlying the contract reserves. Thus the general account incurs an expense and the separate account realizes revenue to cover the deficiency, if necessary. Conversely, excess funds from higher than expected mortality will result in mortality gains, which are included in the Summary of Operations of the separate account and are ultimately recorded as equity in net income from separate account operations as discussed in paragraph 5.

9. Separate account surplus created through the use of the commissioners' reserve valuation method (CRVM), commissioners' annuity reserve valuation method (CARVM), or other reserving methods, shall be reported by the general account as an unsettled transfer from the separate account. The net change on such transfers shall be included as a part of the net gain from operations in the general account.

10. Surplus funds transferred from the general account to the separate account, commonly referred to as seed money, and earnings accumulated thereon shall be reported as surplus in the separate accounts until transferred or repatriated to the general account. The transfer of such funds between the separate account and the general account shall be reported as surplus contributed or withdrawn during the year.

11. If an Asset Valuation Reserve (AVR) is required for investments held by separate accounts, it is combined with the general account AVR and accounted for in the general account financial statements (see *SSAP No. 7—*

Asset Valuation Reserve and Interest Maintenance Reserve). The criteria for determining when an AVR is required for separate accounts are described in paragraph 23~~18~~ of this statement.

12. Reporting entities collect fees for managing Separate Account Guaranteed Investment Contracts (GICs), Synthetic GICs, as well as participating separate account group annuities. These are in the form of administrative fees, risk fees and some investment management fees. For defined contribution business, these are in the form of fees related to mutual fund management. These fees are meant to offset expenses and generate some profit.

13. Amounts receivable from contractholders for separate account management fees meet the definition of assets as set forth in *SSAP No. 4—Assets and Nonadmitted Assets.*

14. An evaluation shall be made of the amounts receivable to determine any nonadmitted amounts. Next, an evaluation shall be made in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets,* to determine whether there is an impairment. This two-step process is set forth below:

e. Uncollected separate account management fees receivable over ninety days due shall be accounted for as a nonadmitted asset. Reporting entities shall begin aging the receivable when it is contractually required to be billed, or in the absence of contract specifications, when the reporting entity actually sends the bill to the contractholder;

f. Remaining amounts determined to be uncollectible shall be written off. If in accordance with SSAP No. 5R, it is "probable" the amount receivable is uncollectible, any uncollectible amount receivable shall be written off against operations in the period such determination is made. If it is "reasonably possible" the amount receivable is uncollectible, the disclosure requirements outlined in SSAP No. 5R, paragraph 32, shall be made.

Separate Account Reporting

15. The separate accounts annual statement is concerned with the flow of funds related to investment activities and obligations of the separate accounts and with the transfer of funds between the separate account and the general account. As a result, the separate account statement shall report only the assets, liabilities, and operations of the separate account and shall not include general account expenses related to investment management, administration, or contract guarantees pertaining to separate account operations which are recorded in the general account.

16. The separate account records premiums, considerations (net of loading for sales charges such as commissions and premium taxes) and receipts (other than for net investment income and realized capital gains and losses) as income transfers from the general account. Net investment income and realized and unrealized capital gains and losses relating to the investment operations of the separate account are recorded as income in the Summary of Operations. When the contract provides for such, expenses and taxes associated with the separate account investment operations shall be deducted in the determination of net investment income. Deposits and withdrawals on deposit-type contracts shall be recorded in the Summary of Operations. Benefits and surrenders, reserve transfers, policy loans[14], policyholder charges (e.g., fees associated with investment management, administration, and contract guarantees), and federal income taxes relating to the separate account are recorded as expense transfers to the general account in the Summary of Operations. The net change in aggregate reserves relating to separate account contracts is reported as an expense in the Summary of Operations.

[14] Policy loans related to separate account products shall follow the guidance in *SSAP No. 49—Policy Loans*. As detailed within SSAP No. 49, as part of the expense transfer, policy loans related to separate account products require a liquidation of the separate account assets to fund the loan issued by the general account. A transfer of assets from the separate account to the general account must have occurred to fund the policy loan issuance; otherwise the policy loan is nonadmitted in the general account.

Measurement of Separate Account Assets

17. Assets supporting separate account contracts, except for contracts captured in paragraph 18, shall be reported at fair value, as determined under *SSAP No. 100—Fair Value*. Assets held in the separate account that reflect seed money from the general account shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted to be used as seed money in the separate account.

18. Assets supporting the following separate account contracts are permitted to be reported as if the assets were held in the general account. This measurement method is referred to as "book value." For these assets, measurement shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted in a book-value separate account. Separate account contracts that do not qualify in the following categories are not permitted at book value without a permitted or prescribed practice from the state of domicile.

a. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation or established or maintained by an employer, will be recorded as if the assets were held in the general account.

b. With approval of the state insurance regulator, assets supporting insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account[15], but do not directly pass all investment experience of the underlying assets to the policyholder may be recorded as if the assets were held in the general account. Unlike traditional separate account contracts, these contracts do not have investment directives determined by the contract holder and investment performance results are not attributed to a specific contract holder. The general account may serve as an overall backstop or may provide an implied guarantee, although a distinct performance guarantee may not be specified (such as a minimum crediting rate, death benefit, etc.). Examples of contracts expected to be captured within this provision include, but are not limited to, pension risk transfer (PRT) contracts, bank-owned life insurance (BOLI) and registered index-linked annuity (RILA) contracts.

~~18. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.~~

[15] The inclusion of this guidance does not imply support for these contracts within the separate account instead of the general account. The domiciliary state insurance regulator is responsible for assessing and approving separate account contract classification in accordance with state statutes.

Asset Transfers Between the General Account and Separate Account

19. Asset transfers that reflect sales for cash between the general account and separate account shall occur at fair value[16]. Specified guidance based on the measurement method of the assets in the separate account are detailed in paragraphs 20-21.

20. Asset sales for cash between the general account and "fair value" separate accounts:

a. The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value.

b. Assets sold from the general account shall result in a realized gain or loss based on the difference between fair value and book adjusted carrying value (BACV). The realized gain or loss, if resulting from interest rate changes, shall be allocated to the general account IMR and amortized as if the asset had been sold to an unrelated third party. Realized gains from these transactions shall not be deferred pursuant to *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 17. Realized losses from credit-related factors shall be allocated to the AVR.

c. Assets sold from a "fair value" separate account shall not result in a realized gain or loss.

d. The account (either general or separate account) purchasing the asset shall initially recognize the acquired asset at fair value. Subsequent measurements of the acquired asset should reflect the measurement method of the general or separate account.

21. Asset sales for cash between the general account and "book value" separate accounts:

a. Seller - The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value with recognition of a realized gain or loss. The realized gain or loss, if resulting from interest rate changes, shall be allocated to IMR and amortized in the selling account as if the asset had been sold to an unrelated third party. The transfer of an asset under this guidance that results in a gain shall not be deferred by the selling account pursuant to SSAP No. 25, paragraph 17, as such a deferral would create a mismatch in the IMR recognition between the general/separate accounts. Realized losses from credit-related factors shall be allocated to the AVR.

b. Purchaser - The account (either general or separate account) purchasing the asset shall recognize the acquired asset at the BACV from the selling account. The difference between the asset's fair value and the BACV shall be reported to IMR in the purchasing account.

c. The IMR activity between the selling account and the purchasing account shall be equal and offsetting resulting in a net zero impact in the IMR between the two accounts. IMR is tracked and reported separately in the general account and the separate account, but the net impact of the two accounts shall equal zero for each transfer transaction.

d. Subsequent to initial acquisition, the purchasing account shall account for the acquired asset pursuant to the measurement method of the applicable SSAP.

[16] This guidance is specific to asset sales for cash and is not intended to reflect administration functions for the payment of amounts owed to separate account policyholders/contractholders that may occur from the general account with reimbursement from the separate account.

22. Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value with gains and losses offset to IMR similar to asset sales for cash guidelines as detailed in paragraphs 20 and 21. Any transfer that does not represent an asset sale for cash shall be specifically disclosed in both the general account and separate account as detailed in paragraph 34.e. This shall include, but not be limited to, the following transfers:

a. Asset to asset swaps

b. Contributions of general account assets to support separate account deficiencies

c. Dividends of assets from the separate account to the general account

Separate Account AVR and IMR Reporting

~~19.~~23. An AVR is ~~generally~~ required for separate accounts when the ~~insurer~~reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. ~~An AVR is required unless:~~

~~a. The asset default or fair value risk is borne directly by the policyholders; or~~

~~b. The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.~~

~~20.~~24. Assets supporting ~~traditional variable annuities and variable life insurance~~separate accounts, excluding products captured in paragraph 18, ~~generally~~ do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, for those contracts an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account. ~~the insurer's equity interest in the investments of the separate account (e.g., seed money).~~

~~21.~~25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, ~~typical modified guaranteed contracts, market value adjusted contracts, and contracts with book value guarantees similar to contracts generally found in the general account do~~ require an AVR because the insurer is responsible for credit related asset or fair value loss.

~~22.~~26. "Book Value" separate accounts, pursuant to paragraph 18, ~~Certain separate accounts are also~~are required to maintain an Interest Maintenance Reserve (IMR). Separate accounts with assets reported at fair value are not required to maintain an IMR. ~~The IMR requirements for investments held in separate accounts are applied on an account by account basis.~~ Once~~If~~ an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

~~23. As detailed in the Annual Statement Instructions, An IMR is required for separate accounts with assets recorded at book value, but is not required for separate accounts with assets recorded at fair value. For example, separate accounts for traditional variable annuities or variable life insurance do not require an IMR because assets and liabilities are valued at fair value.~~

~~24.~~27. ~~If an~~ Separate account IMR ~~is required for investments held by separate accounts, it~~ is kept separate from the general account IMR and accounted for in the separate accounts statement.

~~25.~~28. The AVR and IMR shall be calculated and reported in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the ~~NAIC~~ Annual Statement Instructions ~~for Life, Accident and Health Insurance Companies~~.

Policy Reserves

~~26.~~29. Statutory policy reserves shall be established for all contractual obligations of the insurer arising out of the provisions of the insurance contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. These statutory policy reserves are generally calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. Statutory policy reserves meet the definition of liabilities as defined in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets. The actuarial methodologies referred to in the following paragraph meet the criteria required for reasonable estimates in SSAP No. 5R.

~~27.~~30. The reserving methodologies and assumptions used in computation of policy reserves shall also meet the provisions of Appendices A-200, A-250, A-255, A-270; A-585, A-588, A-620, A-695, A-820, A-822 and the actuarial guidelines found in Appendix C of this Manual. Where separate account contracts have guaranteed elements, the basis for determining the value of the liability shall be consistent with the basis used for asset values (i.e., valuation interest rates as defined in Appendix A-820 shall be used when assets are recorded as if held in the general account and current interest rates based on market rates shall be used when assets are recorded at fair value). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

~~28.~~31. Statutory policy reserves for those group annuity contracts or other contracts that, in whole or in part, establish the insurer's obligations by reference to a segregated portfolio of assets not owned by the insurer shall be established in accordance with the guidance in Appendix A-695. Statutory policy reserves for those contracts with nonlevel premiums or benefits, or contracts with secondary guarantees shall be established in accordance with the guidance in Appendix A-830. Statutory policy reserves for those group life contracts utilizing a separate account that meet the requirements outlined in paragraph 1 of Appendix A-200 shall be computed in accordance with the guidance in that appendix.

Other Liabilities

~~29.~~32. The separate account shall accrue as a liability, subject to contractual provisions, amounts payable, including, but not limited to:

a. Fees associated with investment management, administration, and contract guarantees;

b. Investment expenses;

c. Investment taxes, licenses, and fees (Investment taxes such as real estate taxes, licenses and fees (excluding federal income taxes) are usually paid directly by the separate account but may be transferred to the general account for payment);

d. Federal income taxes;

e. Unearned investment income;

f. Net transfer due to (from) the general account;

g. Remittances and items not allocated;

h. Payable for investments purchased;

i. Net adjustments in assets and liabilities due to foreign exchange rates.

~~**Seed Money**~~

~~30. When a new separate account is initiated, the insurer may make a temporary transfer of surplus funds commonly referred to as seed money to the separate account. Such funds and earnings accumulated thereon shall be reported as surplus in the separate accounts statement until transferred or repatriated to the general account. The transfer of such funds to and from the separate account shall be reported as surplus contributed or withdrawn during the year.~~

Disclosures

~~31.~~33. Paragraphs 34-38~~31-35~~ detail the separate account disclosure requirements that shall be included within the Life, Accident and Health Annual Statement Blank. Paragraphs 39-43~~36-38~~ detail the separate account disclosure requirements that shall be included within the Separate Account Annual Statement Blank.

~~32.~~34. The general account financial statement shall include detailed information on the reporting entity's separate account activity. These disclosures shall include:

a. A narrative of the general nature of the reporting entity's separate account business.

b. Identification of the separate account assets that are legally insulated from the general account claims.

c. Identification of the separate account products that have guarantees backed by the general account. This shall include:

i. Amount of risk charges paid by the separate account to the general account for the past five (5) years[17] as compensation for the risk taken by the general account; and

ii. Amount paid by the general account due to separate account guarantees during the past five (5) years.

iii. Separate account contracts where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products. These products often do not have stated yield or death benefit guarantees, but rather the general account serves as a final backstop if the separate account assets are insufficient to support the product obligations. This disclosure shall identify whether risk charges have been provided to the general account and affirm the inclusion of these separate account products within asset adequacy testing.

d. Discussion of securities lending transactions and repurchase/reverse repurchase agreements within the separate account. ~~,~~ This shall include ~~separately including~~ the amount of any loaned securities within the separate account and the amount of any sold / acquired securities under repurchase agreements, and if policy and procedures for the separate account differ from the general account.

e. Discussion of asset transfers that did not reflect sales in exchange for cash between the general account and the separate account. This shall include, but not be limited to, asset-for-asset swaps,

[17] Reporting entities are permitted to prospectively 'build' the five-year disclosure. Thus, upon the first year of application of the disclosure requirements, reporting entities should illustrate one year of the disclosure requirement. In the second year, the reporting entity would disclose two years, and so forth until the disclosure includes five years of disclosures.

contributions of general account assets to support separate account deficiencies, and dividends of assets from the separate account to the general account.

~~33.~~35. For each grouping (as detailed in paragraph 36~~33~~), the following shall be disclosed:

a. Premiums, considerations or deposits received during the year;

b. Reserves by the valuation basis of the investments supporting the reserves at the financial statement date. List reserves for separate accounts whose assets are carried at fair value separately from those whose assets are carried at amortized cost/book value;

c. Reserves by withdrawal characteristics, including whether or not the separate account is subject to discretionary withdrawal. For reserves subject to discretionary withdrawal, the below categories are included if applicable:

i. With market value adjustment;

ii. at book value without market value adjustment and with surrender charge of 5% or more;

iii. at fair value;

iv. at book value without market value adjustment and with surrender charge of less than 5%;

d. Reserves for asset default risk~~, as described in paragraph 18.b.,~~ that are recorded in lieu of AVR.

~~34.~~36. For the disclosures required in paragraph 35~~32~~, separate accounts shall be addressed in the following groupings (which are the same as those used for risk-based capital):

a. Separate Accounts with Guarantees:

i. Indexed separate accounts, which are invested to mirror an established index which is the basis of the guarantee;

ii. Nonindexed separate accounts, with reserve interest rate at no greater than 4% and/or fund long-term interest guarantee in excess of a year that does not exceed 4%;

iii. Nonindexed separate accounts, with reserve interest rate at greater than 4% and/or fund long-term interest guarantee in excess of a year that exceeds 4%.

b. Nonguaranteed Separate Accounts—Variable separate accounts, where the benefit is determined by the performance and/or fair value of the investments held in the separate account. Include variable accounts with incidental risks, nominal expense, and minimum death benefit guarantees.

~~35.~~37. Provide a reconciliation of the amount reported as transfers to and from separate accounts in the Summary of Operations of the separate accounts statement and the amount reported as net transfers to or from separate accounts in the Summary of Operations of the general accounts statement.

~~36.~~38. The disclosures in *SSAP No. 51R—Life Contracts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* related to the withdrawal characteristics of products include separate account products and shall be completed in the general account disclosures.

~~37.~~39. The Separate Account Annual Statement Blank shall include detailed information on the characteristics of the separate account assets, specifically categorizing separate account assets in accordance with the following characteristics:

a. Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated.

b. Aggregation of separate account assets from products registered with the SEC and separate account assets from products excluded from registration. In addition to the overall aggregation, this disclosure shall specifically identify separate account assets from private placement variable annuities (PPVA) and private placement life insurance (PPLI). The disclosures in this paragraph (~~36~~39.b.) ~~are~~ were effective December 31, 2018.

c. Amount of separate account assets that represent seed money, other fees and expenses due to the general account, and additional required surplus amounts.[18] This disclosure shall include the amount of seed money and other fees and expenses currently included in the separate account, as well as the amount of seed money received and repaid to the general account during the current year. This disclosure shall also include information on insulation (if applicable)[19], the time duration for which seed money and other fees and expenses due the general account are retained in the separate account, and information on how whether seed money is invested pursuant to general account directives or in accordance with stated policies and procedures.

d. Identification of the separate account assets in which the investment directive is not determined by a contractholder. (In most instances, having multiple investment choices at the option of a contractholder would be considered a situation in which the investment directive is determined by a contractholder. This is not true for situations in which the asset is invested in a manner that mirrors the investment directives of the general account.) Situations in which the investment directive is not determined by the contractholder (and situations in which the reporting entity is the contractholder) shall include disclosure regarding whether the investments of the respective separate account assets, if included within the general account investments, would have resulted with the reporting entity exceeding any investment limitations imposed on the general account.

e. Identification of the separate account assets in which less than 100% of investment proceeds are attributed to a contractholder. This shall include identification of the separate account investment income attributed to the reporting entity during the reporting period and whether such income was transferred to the general account or reinvested within the separate account. Instances in which such income is reinvested within the separate account shall include disclosure on whether the subsequent investments, if categorized with investments in the general account, would have exceeded investment limitations imposed on the general account.

f. Identification of the assets supporting separate account contracts where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products. These products often do not have stated yield or death benefit guarantees, but the general account serves as a final backstop if the separate account assets

[18] Additional Required Surplus Amounts is defined as additional or permanent surplus that is required to be retained in the separate account in accordance with state law or regulations. These amounts should not include reinvested separate account investment proceeds that have not been allocated to separate account contract holders.

[19] As seed money is considered a temporary transfer of funds, it is generally not considered insulated.

are insufficient to support the product obligations or by the general account providing an inherent guarantee, although a distinct performance guarantee is not specified (such as a minimum crediting rate, death benefit, etc.).

~~38.~~40. For all separate account assets not reported at fair value, indicate the measurement basis (amortized cost or other method) for each asset (or asset class) and whether the measurement method ~~was grandfathered in under the transition~~is pursuant to the guidance in this SSAP, or whether the measurement method is allowed under a prescribed or permitted practice. This disclosure shall include a comparison of the assets' reported value to fair value with identification of the resulting unrealized gain/loss that would have been recorded if the assets had been reported at fair value.

41. For all separate accounts that include securities lending transactions, disclose the reporting entity's use and policy of securities lending within the separate account, including the amount of loaned securities from the separate account at the reporting date, the percentage of separate account assets lent as of that date, a description for which type of accounts (e.g., book value accounts, market value account accounts) are lent, if the separate account policyholder is notified or approves of such practices, the policy for requiring collateral, whether the collateral is restricted and the amount of collateral for transactions that extend beyond one year from the reporting date. This disclosure requires the entity to provide the following information as of the date of the statement of financial position: (1) the aggregate amount of contractually obligated open collateral positions (aggregate amount of securities at current fair value or cash received for which the borrower may request the return of on demand) and the aggregate amount of contractually obligated collateral positions under 30-day, 60-day, 90-day, and greater than 90-day terms, (2) the aggregate fair value of all securities acquired from the sale, trade and use of the accepted collateral (reinvested collateral), and (3) information about the sources and uses of that collateral.

42. For all separate accounts that include repurchase/reverse repurchase (repo) agreements, disclose the reporting entity's use and policies of repo agreements within the separate account, including the following: (1) fair value of securities sold or acquired, (2) cash collateral and the fair value of security collateral received or provided, (3) recognized liability or receivable for the return of collateral.

~~39.~~43. Identify all products reported as a separate account product under statutory accounting principles and identify whether each product was classified differently under GAAP. For products that resulted with different classifications between GAAP and SAP, identify the characteristic(s) of the product that prevented it from receiving a separate account classification under GAAP. This disclosure is applicable for all reporting entities. Thus, if GAAP financial statements were not filed, the reporting entity should complete this disclosure as if GAAP financials had been completed.

~~40.~~44. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~41.~~45. This statement rejects ASU 2022-05, Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, and AICPA Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1). The disclosure elements included within this SSAP are derived from the criteria for separate account reporting under SOP 03-1; however, this SSAP does not restrict separate account reporting pursuant to the criteria established in SOP 03-1.

~~42.~~46. This statement incorporates the requirements of Appendices A-200, A-250, A-255, A-270, A-585, A-588, A-620, A-695, A-812, A-820, A-821, A-822 the Actuarial Standards Board Actuarial Standards of Practice, and the actuarial guidelines found in Appendix C of this Manual.

Effective Date and Transition

~~43.~~47. This statement is effective for years beginning January 1, 2001. Contracts with assets held in a Separate Account that were issued in accordance with applicable state laws and regulations and issued prior to that effective date, for which assets and liabilities have been recorded using a consistent basis since issue, i.e., both assets and liabilities are recorded either as if in the general account ("book value") or as at fair value (current interest rates based on market rates shall be used for liabilities when assets are recorded at fair value), shall continue to be recorded using such basis until such time as the applicable contract terms or provisions are substantially changed, such as by a contract amendment modifying interest rate or withdrawal provisions. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. Changes that do not require change in the basis of recording would include: address changes, continued deposits, and other non-substantive changes such as these. For example, additional funds received after January 1, 2001 under contracts issued prior to January 1, 2001 may continue to be recorded using the basis in effect prior to January 1, 2001 until such time as a triggering change is made. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

48. Disclosure revisions adopted in September 2009 ~~to paragraphs 30-39~~ shall initially be reported within the 2010 annual financial statements, with annual reporting thereafter.

~~44.~~49. Revisions adopted in February 2025 in agenda item 2024-10, that clarify the measurement of separate account assets, particularly for "book-value separate accounts" and that prescribe the treatment for transfers between the general account and separate account with IMR and AVR recognition, are effective January 1, 2026, with early adoption permitted. The January 1, 2026, effective date intends to allow reporting entities to modify their separate account product "plans/memorandums of operation" with the state of domicile as necessary to comply with this revised statement. After January 1, 2026, reporting entities are required to have an approved permitted or prescribed practice to utilize a book-value measurement method or a different approach for transfers and recognition of IMR/AVR outside of what is detailed within this statement.

REFERENCES

Other

- *NAIC Financial Condition Examiners Handbook*
- *Actuarial Standards Board Actuarial Standards of Practice*

Relevant Issue Papers

- *Issue Paper No. 89—Separate Accounts*
- *Issue Paper No. 110—Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts,* and *SSAP No. 56—Separate Accounts*

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GLOSSARY

Guarantee represents an insurance company's general account contractual obligation to reimburse life insurance and annuity policyholders for their separate account investment losses including the return of principal, minimum crediting rates, minimum death, withdrawal, accumulation of income benefits and no-lapse guarantees, and for separate account mortality losses.

Insulation is the legal protection of separate account assets equal to the reserves and supporting contract liabilities from the general account liabilities of the insurance enterprise ensuring that the separate account contract holder is not subjected to insurer default risk to the extent of their assets held in the separate account.

Risk Charge is the contractual amount the general account charges the separate account policyholders' account for compensation relating to the general account's guarantee on separate account assets or contract performance.

Total Maximum Guarantee is the difference between the total amount of liability the general account is subject to reimbursing as at the balance sheet date and the policyholder's contract value referenced by the guarantee (e.g., account value). For guarantees in the event of death, it is the minimum guaranteed amount available to the contractholder upon death in excess of the contractholder's contract value referenced by the guarantee (e.g., account balance) at the balance sheet date. For guarantees of amounts at annuitization, it is the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the contract value referenced by the guarantee (e.g., account balance).

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

Issue: Derivative Premium Clarifications

Check (applicable entity):

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

Description of Issue: This agenda item was developed in response to two issues. First, NAIC staff noted during internal reviews of *SSAP No. 86—Derivatives* and the Annual Statement Instructions that the terminology used for derivative financing premium was inconsistent and that the guidance for derivative financing premiums could be clarified. Second, as part of the ongoing Interest Maintenance Reserve (IMR) Ad Hoc Group meetings NAIC staff learned that there is some confusion within industry regarding whether statutory accounting guidance allows derivative premium costs to be captured in the calculation of realized losses for the derivative transaction. NAIC staff noted that within SSAP No. 86 there are several sections which provide derivative specific accounting guidance, and within these sections the guidance is clear that companies are to amortize derivative premiums over the life of the derivative contract. With amortization of the derivative premium, the derivative premium costs would not be a component in determining realized losses at expiration. As noted within the Definitions section of SSAP No. 86, derivative premiums represent the cost to acquire or write a derivative contract and is not an "underlying" in a derivative contract. As SSAP No. 86 only allows for the change in value attributable to the derivative underlying to be capitalized to IMR as a realized loss and as derivative premium costs are NOT a component of the derivative underlying, the guidance is clear that derivative premium costs should not be included in losses capitalized into IMR. To ensure this is abundantly clear, revisions have been recommended to both the "Definitions" and "Derivative Premium" sections to add language which specifically states that derivative premium costs cannot be capitalized into IMR.

Existing Authoritative Literature:

Statement of Statutory Accounting Principles No. 86—Derivatives

6. "Derivative Premium" is the cost to acquire or write a derivative contract. Derivative premium is not an "underlying" in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium, so that the cost is paid or received throughout the derivative term or at derivative maturity, does not result with an "embedded derivative" addressed in paragraph 17.

Derivative Premium

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative. Derivative premium that is not paid or received at inception represents a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered "financed derivatives." Financed derivatives shall be reported in accordance with the following provisions:

a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses.

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b. At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as "payable for securities" and "receivables for securities."

Disclosure Requirements

63. Reporting entities shall disclose the following for all derivative contracts used:

a. General disclosures:

v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);

h. For derivative contracts with financing premiums:

i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.

ii. For each derivative contract with financing premiums:

(a) Whether premium cost is paid throughout the contract, or at derivative maturity;
(b) Next premium cost payment date;
(c) Total premium cost;
(d) Premium cost paid in prior years;
(e) Current year premium cost paid;
(f) Future unpaid premium cost;

EXHIBIT B – SPECIFIC HEDGE ACCOUNTING PROCEDURES FOR DERIVATIVES

2. Swaps, Collars, and Forwards (see also discussion in Introduction above):

c. Cash Flows and Income:

i. Where the cost of the derivative is not combined with the hedged item:

(a) Amortization of premium paid or received on derivatives is an adjustment to net investment income or another appropriate caption within operating income consistent with the reporting of the hedged item;

(b) Periodic cash flows and accruals of income/expense are to be reported in a manner consistent with the hedged item, usually as net investment income or another appropriate caption within operating income.

ii. Where the cost of the derivative is combined with the hedged item, the cash flows and income of the derivative on Schedule DB is zero. All related amortization and cash flow accounting shall be reported with the hedged item instead of with the derivative.

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Ref #2024-23

Annual Statement Instructions: Notes to the Financial Statements:

NOTE 8.A.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums, excluding the impact of the deferred or financing premiums.

Illustration:

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLES BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

A. Derivatives under *SSAP No. 86—Derivatives*

(8)

a.

Fiscal Year	Derivative Premium Payments Due
1. 2025	$ .....
2. 2026	.....
3. 2027	.....
4. 2028	.....
5. Thereafter	
6. Total Future Settled Premiums (Sum of 1 through 5)	$

b.

	Undiscounted Future Premium Commitments	Derivative Fair Value with Premium Commitments (Reported on DB)	Derivative Fair Value Excluding Impact of Future Settled Premiums
1. Prior Year	$	$	$ .....
2. Current Year	$	$	$ .....

Annual Statement Instructions: Schedule DB – Definitions

"Financing Premium" means that the premium cost to acquire or enter into the derivative is paid at the end of the derivative contract or throughout the derivative contract.

Annual Statement Instructions: Schedule DB – Part A – Section 1

Column 30 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted future settled premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

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(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of future financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 30 shall reflect the fair value of the derivative without an offset for the future financing premiums.)

Column 31 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted future settled premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing cost owed by the reporting entity, those "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

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 2012-17, which considered *ASU 2011-22, Disclosures about Offsetting Assets and Liabilities*, was finalized by the Working Group Nov. 29, 2012. This agenda item adopted revisions to SSAPs No. 64, 86 and 103. The adopted revisions, effective Jan. 1, 2013, 1) revise and clarify that offsetting is only allowed in accordance with SSAP No. 64, paragraphs 2-4; 2) modify the adoption of FIN 39 rejecting the ability to offset in accordance with master netting agreements and rejecting FSP FIN 39-1 and FIN 41; and 3) rejecting ASU 2011-11 for statutory accounting.

Overview of ASU 2011-11:

ASU 2011-11 was issued in December 2011 to require entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. This ASU was issued as the differences in the offsetting requirements between U.S. GAAP and IFRS accounted for a significant difference in the amounts presented under those standards. These differences reduce the comparability of between U.S. GAAP and IFRS, and the users of financial statements requested that these differences be addressed expeditiously. **The objective of the ASU 2011-11 amendments is to facilitate comparison between entities that prepare financial statements under U.S. GAAP and those prepared under IFRS.** Reporting entities are required to apply the ASU 2011-11 amendments for annual reporting periods beginning on or after Jan. 1, 2013, and interim periods within those annual periods. Entities are required to provide the disclosures required by those amendments retrospectively for all comparative periods presented.

Agenda item 2013-07, which considered *ASU 2013-01: Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities,* was finalized on August 24, 2013. This ASU was issued to clarify that the scope of ASU 2011-11 applies to derivatives (including embedded derivatives), repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either netted as they meet the right of setoff under ASC 210-20-45 or ASC 815-10-45, or are subject to a master netting agreement or similar agreement. The SAP adopted revisions allowed reporting entities to continue offsetting derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions with a valid right of offset, but incorporated disclosures to illustrate the netting impact. This adoption action included a referral to the Blanks (E) Working Group for annual statement instruction revisions and to recommend development of additional schedules to reconcile the amount reported gross on DB to the amount reported net on the balance sheet.

Agenda item 2016-48 considered accounting and reporting revisions for derivatives with financing premiums. Although discussion occurred proposing a gross accounting and reporting approach, the revisions adopted on

November 6, 2017 within that agenda item incorporated aggregate disclosures and new electronic columns in Schedule DB to capture the impact of financing premiums in derivative reporting.

Agenda 2019-38 considered the accounting and reporting of financing derivative transactions pursuant to a review of information from the 2018 year-end statutory financial statements. The agenda item was adopted on July 30, 2020, and included revisions to SSAP No. 86 to ensure consistency in the gross reporting of derivatives without inclusion of financing components and in reporting amounts owed to/from the reporting entity from the acquisition or writing of derivatives.

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 of the maintenance agenda, categorized as a SAP clarification, and expose revisions to SSAP *No. 86—Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premium and to further clarify that derivative premium costs are not to be capitalized to IMR. The proposed revisions to SSAP No. 86 and the annual statement are illustrated below.

Staff Review Completed by:
NAIC Staff – William Oden, October 2024

Status:
On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed this agenda item proposing revisions to *SSAP No. 86—Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premiums and to further clarify that derivative premium costs shall not be recognized as a realized gain/loss.

Proposed Edits to SSAP No. 86 - Fall National Meeting:

6. "Derivative Premium" is the cost to acquire or write a derivative contract. Derivative premium is not an "underlying" in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium (financing premium), so that the ~~cost is~~premiums are paid or received throughout the derivative term or at derivative maturity, does not result with an "embedded derivative" which is addressed in paragraph 17. For the purposes of this statement, unpaid or deferred premiums are considered synonymous with financing premium. Derivative premium costs are not to be included in the calculation of realized losses nor capitalized to the interest maintenance reserve (IMR) as derivative premium costs are ~~is~~ not considered an underlying in the derivative contract.

Derivative Premium

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative but does not represent an underlying in the derivative contract. Accordingly, derivative premium costs are not to be included in the calculation of realized losses~~capitalized to IMR~~. Derivative premiums are to be amortized over the life of the derivative contract with the amortization recorded as an adjustment to net investment income or another appropriate caption within operating income consistent with the reporting of the derivative contract. Derivative premium that

is not paid or received at inception of the derivative contract represents financing premium and shall be recorded as a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered "financed derivatives." Financed derivatives shall be reported in accordance with the following provisions:

a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses. Even if the derivative premium is fully financed, a derivative contract asset/liability must be recorded and the derivative premium amortized over the life of the derivative contract.

b. At acquisition and subsequently, financing premiums payable (acquired derivative) and financing premiums receivable (written derivatives) shall be separately reported as "payable for securities" and "receivables for securities."

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. Upon termination of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the hedged item and be recognized in income in a manner that is consistent with the hedged item (alternatively, if the item being hedged is subject to ~~Interest Maintenance Reserve (~~IMR~~)~~, the gain or loss on the hedging derivative may be realized and shall be subject to IMR upon termination.) Entities who choose the alternative method shall apply it consistently thereafter.

63.a.v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid/received at the end of the derivative contract or throughout the derivative contract.);

63.h.i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of ~~the deferred or~~ financing premiums.

63.h.ii. For each derivative contract with financing premiums:

(a) Whether premium cost is paid/received throughout the contract, or at derivative maturity;
(b) Next premium cost payment date;
(c) Total premium cost;
(d) Premium cost paid/received in prior years;
(e) Current year premium cost paid/received;
(f) Future unpaid/unreceived premium cost;

Footnote [3] Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Financing ~~P~~premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.

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Proposed Edits to Annual Statement Instructions - Fall National Meeting:

NOTE 8.A.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums, excluding the impact of ~~the deferred or~~ financing premiums.

Illustration:

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLES BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

A. Derivatives under *SSAP No. 86—Derivatives*

(8)

a.

	Fiscal Year	Derivative Premium Payments Due
1.	2025	$ .....
2.	2026	.....
3.	2027	.....
4.	2028	.....
5.	Thereafter	
6.	Total ~~Future Settled~~Financing Premiums (Sum of 1 through 5)	$

b.

		Undiscounted Future Premium Commitments	Derivative Fair Value with Premium Commitments (Reported on DB)	Derivative Fair Value Excluding Impact of ~~Future Settled~~ Financing Premiums
1.	Prior Year	$	$	$ .....
2.	Current Year	$	$	$ .....

SCHEDULE DB – PART A – SECTION 1

Column 30 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~ financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

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Column 31 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~ financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART A – SECTION 2

Column 29 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 29 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

Column 30 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART B – SECTION 1

Column 28 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 28 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

Column 29 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

Ref #2024-23

SCHEDULE DB – PART B – SECTION 2

Column 24 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

Column 25 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~ financing premiums. For example, if the valuation increase/valuation decrease reported in column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premium owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

On February 25, 2025, the Working Group adopted as final SAP clarification revisions to SSAP No. 86 and the annual statements related to financing premium (Issue 1). The Working Group also directed NAIC staff to incorporate the previously exposed revisions regarding clarifications on the calculation and recognition of realized losses from derivative premium (Issue 2) into agenda item 2024-15: ALM Derivatives for further consideration. The rationale for this movement was based on discussions with interested parties, where it was pointed out that there are several complicating factors when trying to clarify this calculation but also that the main concern on the inclusion of derivative premium costs in the calculation of realized losses was that it could be capitalized into IMR and deferred. The adopted revisions are reflected below:

Adopted edits to SSAP No. 86 – 2/25/2025 Interim Meeting (Issue 1 revisions ONLY)

6. "Derivative Premium" is the cost to acquire or write a derivative contract. Derivative premium is not an "underlying" in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium (financing premium), so that the ~~cost is~~premiums are paid or received throughout the derivative term or at derivative maturity, does not result with an "embedded derivative" which is addressed in paragraph 17. For the purposes of this statement, unpaid or deferred premiums are considered synonymous with financing premium.

Derivative Premium

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative but does not represent an underlying in the derivative contract. Derivative premium that is not paid or received at inception of the derivative contract represents financing premium and shall be recorded as a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered "financed derivatives." Financed derivatives shall be reported in accordance with the following provisions:

a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as

unrealized gains or losses. Even if the derivative premium is fully financed, a derivative contract asset/liability must be recorded.

b. At acquisition and subsequently, financing premiums payable (acquired derivative) and financing premiums receivable (written derivatives) shall be separately reported as "payable for securities" and "receivables for securities."

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. Upon termination of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the hedged item and be recognized in income in a manner that is consistent with the hedged item (alternatively, if the item being hedged is subject to Interest Maintenance Reserve (IMR), the gain or loss on the hedging derivative may be realized and shall be subject to IMR upon termination.) Entities who choose the alternative method shall apply it consistently thereafter.

63.a.v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid/received at the end of the derivative contract or throughout the derivative contract.);

63.h.i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of ~~the deferred or~~ financing premiums.

63.h.ii. For each derivative contract with financing premiums:

(a) Whether premium cost is paid/received throughout the contract, or at derivative maturity;
(b) Next premium cost payment date;
(c) Total premium cost;
(d) Premium cost paid/received in prior years;
(e) Current year premium cost paid/received;
(f) Future unpaid/unreceived premium cost;

Footnote [3] Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Financing ~~P~~premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.

Ref #2024-23

Adopted edits to Annual Statement Instructions which will be recommended to Blanks (E) Working Group– 2/25/2025 Interim Meeting (Issue 1 revisions ONLY)

NOTE 8.A.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums, excluding the impact of ~~the deferred or~~ financing premiums.

Illustration:

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLES BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

A. Derivatives under *SSAP No. 86—Derivatives*

(8) a.

	Fiscal Year	Derivative Premium Payments Due
1.	2025	$ .....
2.	2026	.....
3.	2027	.....
4.	2028	.....
5.	Thereafter	
6.	Total ~~Future Settled~~Financing Premiums (Sum of 1 through 5)	$

b.

		Undiscounted Future Premium Commitments	Derivative Fair Value with Premium Commitments (Reported on DB)	Derivative Fair Value Excluding Impact of ~~Future Settled~~ Financing Premiums
1.	Prior Year	$	$	$ .....
2.	Current Year	$	$	$ .....

SCHEDULE DB – PART A – SECTION 1

Column 30 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~ financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

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Column 31 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~ financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART A – SECTION 2

Column 29 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 29 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

Column 30 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART B – SECTION 1

Column 28 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 28 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

Column 29 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

Ref #2024-23

SCHEDULE DB – PART B – SECTION 2

Column 24 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in column 16 as the value of the derivative and the net present value of ~~future~~ financing premiums owed from the acquisition of the derivative may offset. The fair value reported in column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~ financing premiums.)

Column 25 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~ financing premiums. For example, if the valuation increase/valuation decrease reported in column 17 includes "losses" to recognize the net present value of the financing ~~cost~~ premium owed by the reporting entity, those future "losses" shall be removed from the unrealized valuation increase/decrease reflected in this column.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A6-24-23 - Derivative Premium Clarification.docx

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Ref #2024-27

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

Issue: Issue Papers in Statutory Hierarchy

Check (applicable entity):

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

Description of Issue: This agenda item has been drafted to capture issue papers in Level 5 of the statutory hierarchy pursuant to the direction from the 2024 Fall National Meeting. Additionally, revisions have been proposed to update the process to develop issue papers to reflect current Working Group practice.

This issue originated in response to a Sept. 27, 2024, interested parties' comment letter for the Principles-Based Bond Definition Questions and Answer Implementation Guide where interested parties suggested that issue papers should be recognized as authoritative guidance. These comments suggested inclusion of issue papers in Level 2 or Level 4 of the statutory hierarchy. However, NAIC staff identified that a Level 5 classification would better prevent unintended conflicts between issue papers and other sources of statutory guidance. Issue papers are not always updated after adoption of an SSAP, especially a clarification adoption, and should not be considered more applicable than any other statutory-specific guidance, whether that guidance is in SSAP, interpretation, reporting instructions or information from the *Purposes and Procedures Manual of the Investment Analysis Office*. By classifying issue papers as Level 5, issue papers will be on the same level as non-authoritative U.S. GAAP guidance/literature and will be behind all other sources of statutory guidance. Although this inclusion clarifies that issue papers are a source of statutory guidance that can be applied and utilized, the Level 5 classification would only allow application if they do not conflict with other statutory guidance. This classification confirms that an issue paper cannot be used or cited above any other source of established statutory guidance captured in the statutory hierarchy. The excerpt from the Hearing agenda discussed during the 2024 Fall National Meeting (captured within the authoritative literature) noted that some users have attempted to cite issue paper guidance as authoritative, particularly once they were publicly posted on the website, although the guidance had been replaced by a more current SSAP. It was also noted that some citations in issue papers discuss proposed guidance that is evaluated and rejected. These reasons further support the identification of issue papers in Level 5 of the statutory hierarchy, as they are a source of statutory accounting, but shall be applied only to the extent that they do not conflict with a higher level of guidance.

The proposed revisions to incorporate these changes are predominantly captured in the Statutory Hierarchy reflected in the Statutory Accounting Preamble and Appendix E. Revisions have not been proposed to modify the effective date language of historical Issue Papers. Rather, a note has been included to identify the revisions to the classification of issue papers as Level 5 of the statutory hierarchy.

Excerpt from Interested Parties' Sept. 27, 2024, Comment Letter:

> First, interested parties would like to suggest that Issue Papers be recognized as authoritative guidance and included in Level 2, or alternatively Level 4, in the statutory hierarchy of authoritative guidance. Level 2 would place issue papers higher in the hierarchy than the annual statement instructions (Level 3) which arguably is appropriate. Level 4 specifically includes the preamble as authoritative guidance and paragraph 45 of the preamble states, "While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive." This part of the preamble implies if a difference exists, and is not addressed by the

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SSAP, it is authoritative. If this interpretation by interested parties is not consistent with the NAIC's interpretation, it is important that the issue papers be explicitly included in the statutory hierarchy as many are drafted to include interpretative guidance not included in the SSAPs (e.g., feeder funds related to the new principles-based bond definition (PBBD) and superseded US GAAP OTTI impairment guidance that is still applicable for statutory accounting but is not codified within the SSAPs). Further, other areas of the Accounting Practices & Procedures Manual that suggest issues papers are not authoritative (e.g., Appendix E) would need to be updated for consistency.

Existing Authoritative Literature:

Statutory Accounting Principles Preamble

V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1

SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[1] (FASB Codification or GAAP guidance)

Level 2

Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)

Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

Level 3

NAIC Annual Statement Instructions

Purposes and Procedures Manual of the NAIC Investment Analysis Office

Level 4

Statutory Accounting Principles Preamble and Statement of Concepts[2]

Level 5

Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept

[1] Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

[2] The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements Five and Eight to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

VI. Statements of Statutory Accounting Principles (Bolding and underlining added for emphasis)

45. This Manual consists primarily of Statements of Statutory Accounting Principles (SSAPs). SSAPs are the primary Accounting Practices and Procedures promulgated by the NAIC. These statements are the result of issue papers that have been exposed for public comment and finalized. Finalized issue papers are in Appendix E. **While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive.**

Appendix E – Issue Papers (Bolding and underlining added for emphasis)

Introduction

Issue papers are used as the first step in developing new or revised SSAPs, and each contains a recommended conclusion, discussion and relevant literature section. **While issue papers do not constitute an authoritative level of statutory accounting guidance as defined by the statutory hierarchy, they are an important part of the *Accounting Practices and Procedures Manual* (Manual) because they reference the history and discussion of the related SSAP.**

Issue papers are published in the Manual within Appendix E the first year after adoption of the related SSAP, but are then removed from the subsequent year's Manual and posted for public reference on the Statutory Accounting Principles (E) Working Group (SAPWG) web page at *https://content.naic.org/cmte_e_app_sapwg.htm*.

Ref #2024-27

2024 Fall National Meeting Discussion

NAIC staff presented a recommendation along with a review of historical guidance and references in issue papers during the 2024 Fall National Meeting. This information has been retained within this agenda item for reference purposes:

2024 Fall National Meeting Recommendation: NAIC staff recommend that the Working Group direct a new agenda item to consider capturing issue papers in Level 5 of the statutory hierarchy. Although interested parties have proposed a classification of Level 2, and an alternative classification in Level 4, NAIC staff suggest that consideration of a Level 5 classification is most appropriate to prevent any unintended conflicts with other sources of statutory guidance. The rationale for this position is that issue papers are not always updated after adoption of an SSAP, especially a clarification adoption, and should not be considered more applicable than any other statutory-specific guidance, whether that guidance is deemed to reflect accounting guidance, reporting instructions or information from the SVO manual. The Level 5 classification will put issue papers on the same level as non-authoritative GAAP guidance and literature. NAIC staff believe this is appropriate, as if guidance for a topic is not specifically detailed in any other form of statutory-specific sources, adopted issue papers should be a viable source for guidance along with non-authoritative GAAP.

As detailed within, from a review of references in the issue papers, various references imply that issue papers can be applied and utilized as long as the guidance within the Issue Paper does not conflict with other guidance. There are a few explicit instances that note they are not authoritative/in the statutory hierarchy. NAIC staff notes that Issue Papers often include discussion of guidance or components that are not incorporated into SSAP, therefore it is imperative for the guidance to only be applicable if consistent with an adopted SSAP. By adding the issue papers to Level 5, this reference would clarify the intent to use issue papers, and the use of information detailed within, eliminating questions on the use of the guidance that is consistent with currently adopted SSAPs.

- By classifying issue papers as Level 5, instead of Level 2, if there is a subsequent reporting revision that is not captured in statutory accounting but only reflected in the annual statement instructions, the updated instructions, which are Level 3, shall be followed. If issue papers were classified as Level 2, there could be inherent reporting conflict if the issue paper detailed reporting requirements at the time of adoption as that issue paper guidance would not be subsequently updated.

- By classifying issue papers as Level 5, instead of Level 4, issue papers will continue to be below the SAP Preamble and Statement of Concepts. As such, if there are revisions to the Preamble, those revisions will continue to override any potential conflicts with a previously adopted issue paper.

NAIC staff recognizes that existing guidance presents inconsistent references to issue papers causing confusion on how/when they should apply. As noted, there are a few explicit statements that issue papers are not authoritative, but other references imply application and use of Issue Papers when there are no differences between the issue paper and the SSAP. NAIC staff believe it is imperative to stress application only when the guidance is in line with a current adopted SSAP. As SSAPs have not historically been posted publicly, NAIC staff receive questions that cite guidance in issue papers as they are posted publicly. Often in these situations, the citations have been superseded by more current SSAP, so attempting to use the issue paper guidance in those instances would not be in line with current SSAP. The following Preamble excerpt has been within the NAIC *Accounting Practices and Procedures Manual* since original codification (2000 Manual) and implies that finalized issue papers are applicable but defer to the SSAP if differences exist. (This was paragraph 41 in the 2000 Manual and is reflected as paragraph 45 in the 2024 Manual.)

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41/45. This Manual consists primarily of Statements of Statutory Accounting Principles (SSAPs). SSAPs are the primary Accounting Practices and Procedures promulgated by the NAIC. These statements are the result of issue papers that have been exposed for public comment and finalized. **Finalized issue papers are in Appendix E. While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive.**

The following Preamble excerpt has also been within the NAIC *Accounting Practices and Procedures Manual* since original codification (2000 Manual) and indicates in the absence of a SSAP or "established source of statutory accounting principles," other accounting literature may be considered. As issue papers would represent an established source of statutory guidance, this Preamble guidance could be argued to have always supported issue papers as a source that could be considered along with non-authoritative GAAP if other statutory guidance did not exist. (This is paragraph 40 in the 2000 Manual and is reflected as paragraph 44 in the 2024 Manual.)

40/44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In **the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature below category c in the GAAP hierarchy as defined in SAS 69**. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources below category d in the GAAP hierarchy4.

From a review of all issue papers, NAIC staff has identified that the original issue papers that correspond to the original codification of statutory accounting principles through issue papers adopted in 2000 did not include an "Effective Date" section. Beginning with *Issue Paper No. 107—Certain Health Care Receivables and Receivables Under Government Insured Plans*, which was finalized Aug. 8, 2001, an Effective Date section was included. After that issue paper, some form of "Effective Date" guidance was generally included (but not always). From Issue Paper No. 107 through Issue Paper No. 164, when effective date language was included, it was worded like the excerpts below. Although these excerpts identify that the issue papers are not in the statutory hierarchy, they also indicate an expectation that the issue paper's conclusions can be "applied" once the SSAP has been adopted.

Issue Paper No. 107: Finalized Aug. 1, 2001

28. Upon adoption of this issue paper, the NAIC will release a Statement of Statutory Accounting Principle (SSAP) for comment. The SSAP will contain the adopted Summary Conclusion of this issue paper. **Users of the Accounting Practices and Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.** It is expected that the SSAP will contain an effective date of years ending on or after December 31, 2001.

[4] As specified by AU Section 411, paragraph 11.

Ref #2024-27

Issue Paper No. 164: Finalized July 30, 2020

23. The adoption of this issue paper by the Statutory Accounting Principles (E) Working Group, and the substantively revised statement of statutory accounting principles (SSAP) occurred on July 30, 2020. The substantive revisions to SSAP No. 32R are detailed in Exhibit A of this issue paper and reflected in the substantively-revised SSAP No. 32R—Preferred Stock. The effective date of the guidance will be identified in the SSAP. **Users of the Accounting Practices & Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.**

Although the original process for issue papers was to have them adopted prior to the development and adoption of the SSAP (which could result in differences between the SSAP and issue paper), current practice more often adopts the SSAP revisions, and then uses the issue paper for historical documentation purposes, or they are completed concurrently. Note, however, that not all SSAP revisions, especially those of clarification type and not contested, have a related issue paper updated. The following effective date language is captured in more recent issue papers adopted between 2019-2023. (Noted also in Issue Papers No. 163, 165 and 167.)

Issue Paper No. 162: Finalized Aug. 3, 2019

24. As issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble), the subsequent consideration and adoption of this issue paper will not have any impact of the effective date of the substantive revisions adopted to SSAP No. 62R during the 2018 Fall National Meeting.

NAIC staff only identified the following two issue papers that appear to have been expanded to include language as "not authoritative" in the issue paper's effective date language. These are relatively recent issue papers adopted in 2022 and 2023.

Issue Paper No. 166—Updates to the Definition of a Asset (Finalized Aug. 10, 2022)

21. **As issue papers are not authoritative** and are not represented in the Statutory Hierarchy (see Section V of the Preamble), the consideration and adoption of this issue paper will not have any impact on the SAP clarifications adopted to SSAP No. 4 by the Working Group on August 10, 2022.

Issue Paper No. 168—Updates to the Definition of a Liability (Finalized Aug. 13, 2023)

24. **As issue papers are not authoritative** and are not represented in the Statutory Hierarchy (see Section V of the Preamble), the consideration and adoption of this issue paper will not have any impact on the SAP clarifications adopted to SSAP No. 5R by the Working Group on August 13, 2023.

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

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Ref #2024-27

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing and expose this agenda item with proposed revisions to include issue papers within Level 5 of the statutory hierarchy. Other corresponding revisions to update references are also proposed as applicable. Upon adoption of this agenda item issue papers will not be updated but will include the following note: "On (month/year), Issue Papers were included in Level 5 of the Statutory Hierarchy."

Statutory Accounting Principles Preamble

V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1

SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[3] (FASB Codification or GAAP guidance)

Level 2

Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)

Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

Level 3

NAIC Annual Statement Instructions

Purposes and Procedures Manual of the NAIC Investment Analysis Office

Level 4

Statutory Accounting Principles Preamble and Statement of Concepts[4]

Level 5

Statutory Accounting Issue Papers[FN]

Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept

[3] Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

[4] The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements Five and Eight to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

New FN: With inclusion of Level 5, issue papers shall only be used and applied as authoritative guidance if they do not conflict with other sources of statutory guidance.

43. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

Appendix E – Issue Papers

Introduction

Issue papers are often used ~~as the first step~~ in developing new or revised SSAPs and in documenting the discussions and issues leading to the adoption of new statutory accounting concepts. ~~, and each contains a recommended conclusion, discussion and relevant literature section. While issue papers do not constitute an authoritative level of statutory accounting guidance~~Issue papers are captured in Level 5 ~~as defined by~~of the statutory hierarchy and, as they are not typically updated after adoption, shall only be used and applied if they do not conflict with other sources of statutory guidance. SSAP clarifications, especially those non-contested, many times will not have a corresponding update to a related issue paper. Issue papers~~, they~~ are an important part of the *Accounting Practices and Procedures Manual* (Manual) because they reference the history and discussion of ~~the related~~ SSAP.

Issue papers are published in the Manual within Appendix E the first year after adoption of the related SSAP, but are then removed from the subsequent year's Manual and posted for public reference on the Statutory Accounting Principles (E) Working Group (SAPWG) web page at *https://content.naic.org/cmte_e_app_sapwg.htm*.

How to Use This Manual:

Appendix E – Issue Papers:
Appendix E includes issue papers associated with SSAPs adopted through year end prior to publication of the Manual. Issue papers are often used ~~as the first step~~ in developing new or revised SSAPs and in documenting the discussions and issues leading to the adoption of new statutory accounting concepts.~~contain a recommended conclusion, discussion and relevant literature section~~. Issue papers are captured in Level 5 of the statutory hierarchy~~,~~ and, as they are not typically updated after adoption, shall only be used and applied if they do not conflict with other sources of statutory guidance. SSAP clarifications, especially those non-contested, many times will not have a corresponding update to a related issue paper. ~~**DO NOT** constitute an authoritative level of statutory accounting, as supported by the statutory hierarchy, and should only be used as reference material. Nevertheless, i~~Issue papers are important because they reference the history and discussion of a related SSAP. The "Relevant Statutory Accounting and GAAP Guidance" section of the issue paper may contain~~s~~ excerpts of accounting guidance considered, but not necessarily adopted, by the Statutory Accounting Principles (E) Working Group (SAPWG) when forming the conclusions reached in the resultant SSAP. Historical issue papers associated with SSAPs adopted prior to the current year are posted for public reference on the SAPWG web page at *https://content.naic.org/cmte_e_app_sapwg.htm*.

NAIC Policy Statement on Maintenance of Statutory Accounting Principles

Development of New SSAPs or New SAP Concepts[5] in an Existing SSAP

4. New SSAPs will be developed to address, but will not be limited to: 1) concepts not previously addressed by a SSAP and that do not fit within the scope of an existing SSAP; 2) concepts that fit within the scope of an existing SSAP, but the Working Group elects to supersede existing SSAPs and 3) existing concepts that warrant significant revisions. New SAP concepts to existing SSAPs will be developed to address, but will not be limited to: 1) concepts that fit within the accounting topic of an existing SSAP, but have not been addressed by the Working Group; 2) changes to the valuation and/or measurement of an existing SSAP; and 3) modifications to the overall application of existing SSAPs. The decision to undertake development of a new SSAP or a new SAP concept in an existing SSAP will rest with the Working Group. New SSAPs or a new SAP concept in an existing SSAP will have a specified effective date.

5. Research and drafting of a new SSAP or a new SAP concept in an existing SSAP will be performed by NAIC staff under the direction and supervision of the Working Group which may enlist the assistance of interested parties and/or consultants with requisite technical expertise as needed or desired. Issue papers are often used ~~The first step~~ in the process to develop ~~developing~~ new SSAPs and new SAP concepts in existing SSAPs ~~will commonly be the drafting of an issue paper, which will contain a summary of the issue, a summary conclusion, discussion, and a relevant literature section~~and to document the discussions and issues leading to the adoption of new statutory accounting concepts. Public comments will be solicited on an issue paper (at least one exposure period), and at least one public hearing will be held before the issue paper ~~is converted to a SSAP~~is adopted. Upon approval by the Working Group, all proposed SSAPs will be exposed for public comment for a period commensurate with the length of the draft and the complexities of the issue(s). After a hearing of comments, adoption of new SSAPs or new SAP concepts in existing SSAPs (including any amendments from exposure) may be made by simple majority. If no comments are received during the public comment period, the Working Group may adopt the proposal

[5] Prior to December 11, 2021, the term used to describe a new SAP concept was "substantive" and the term used to describe a SAP clarification was "nonsubstantive." The new terms will be reflected in materials to describe revisions to statutory accounting principles on a prospective basis and historical documents will not be updated to reflect the revised terms.

collectively (one motion/vote) with other non-contested positions after the opportunity is given during the hearing to separately discuss the proposal. All new SSAPs and new SAP concepts in existing SSAPs must be on the agenda for at least one public hearing before presentation to the Task Force for consideration. Adoption by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

Staff Review Completed by: Julie Gann, NAIC Staff—November 2024

Status:
On December 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing as a SAP clarification and exposed revisions, as shown above, to classify issue papers in Level 5 of the statutory hierarchy.

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted as final the exposed revisions to classify issue papers in Level 5 of the statutory hierarchy.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A7-24-27 - Issue Paper Stat Hierarchy.docx

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Ref #2024-28

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

Issue: Holders of Capital Notes

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 the direction of the Working Group during the 2024 Fall National Meeting with the adoption of *INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers*. With the adoption of the INT, and the guidance for reporting certain debt securities as capital notes in scope of *SSAP No. 41—Surplus Notes*, industry identified that slight revisions may be necessary to reflect the capital note distinctions. The Working Group directed NAIC staff to work with industry in this review and identifying necessary changes.

From the initial review and working with industry, revisions have been proposed to address the following specifically for capital notes:

1. Incorporate a definition/reference to the INT for capital notes.
2. Clarify the admittance restrictions.
3. Clarify the guidance for NAIC designations.
4. Update the impairment guidance to refer to capital notes.

In addition to these items, it was identified that an existing disclosure for surplus notes, which requires disclosure of any holder of 10% or more of an SEC-registered surplus note, is likely an extensive administrative burden, may be difficult to complete, and as a narrative disclosure only (not data-captured), is likely not often utilized. From a review of the disclosure, it predates the issuance of *SSAP No. 41—Surplus Notes*, and there are questions as to how a disclosure of certain holders of SEC-registered notes would be purposeful or used. NAIC staff has proposed to eliminate this aspect of the disclosure but retain the disclosure focusing on surplus notes with affiliates. NAIC staff requests feedback on whether this disclosure should be retained.

Existing Authoritative Literature:

- ***SSAP No. 41—Surplus Notes***

1. This statement establishes statutory accounting principles for issuers and holders of surplus notes, and for holders of capital notes. Statutory accounting principles for issuers of capital notes are provided in *SSAP No. 15—Debt and Holding Company Obligations*.

(Paragraphs 2-8 Is limited to "Issuers of Surplus Notes" so is not included.)

Holders of Capital or Surplus Notes

9. Investments in capital or surplus notes meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement. Additionally, the amount admitted is specifically limited to the following two provisions:

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a. The admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity instruments in the issuer held directly or indirectly by the holder of the capital or surplus note.

b. The surplus note shall be nonadmitted if issued by an entity that is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital. Subsequent to this nonadmittance, if any of the conditions described ceased to exist, the holder may admit the surplus note at the value determined under paragraph 11. If a surplus note was nonadmitted pursuant to this paragraph, and the surplus note was ultimately determined to be other-than-temporarily impaired, the reporting entity shall recognize a realized loss for the portion of the surplus note determined to be other-than-temporarily impaired, with elimination of a corresponding amount of the previously nonadmitted assets.

10. Capital or surplus notes shall be valued in accordance with paragraph 11. Pursuant to that paragraph, the value is determined by NAIC credit rating provider (CRP) ratings. Part One – Capital and Surplus Debentures of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* provides guidance in determining the NAIC designation for these investments.

11. If the capital or surplus note has been rated by an NAIC CRP and has a designation equivalent of NAIC 1 or NAIC 2, then it shall be reported at amortized cost. If the capital or surplus note is not CRP rated or has an NAIC designation equivalent of NAIC 3 through 6, then the balance sheet amount shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes.

12. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

13. For surplus notes issued and held (directly or indirectly) between insurance reporting entities and subsidiary, controlled and affiliated entities, the guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* requires adjustment to prevent double-counting of surplus notes. For example, an insurance reporting entity is not permitted to report the issuance of a surplus note as an increase in surplus and have an asset representing an investment in the SCA that includes the issued surplus note (held by an SCA). Pursuant to SSAP No. 97, the "investment in the SCA" shall be adjusted to eliminate the surplus note issued by the direct or indirect parent insurance reporting entity. This treatment shall also apply for instances in which the SCA acquires any portion of outstanding surplus notes issued by the direct or indirect parent through any means (e.g., directly acquired from the parent, acquired through a third-party broker, or via the market).

Income

14. Only interest that has been approved by the issuer's domiciliary commissioner shall be accrued as income by a holder of surplus notes. Interest income for any period consists of interest collected during the period and the change in the due and accrued interest between the beginning and end of the period approved by the issuer's domiciliary commissioner.

15. Except for the specific limitations on recognizing interest income in paragraph 14, investment income, and the recognition of uncollectible accrued interest, shall follow the guidance in *SSAP No. 34—Investment Income Due and Accrued.*

Impairment

16. An other-than-temporary impairment(INT 06-07) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the surplus note. Pursuant to the terms of a surplus note, payments of principal and interest may be delayed if the issuer's

domiciliary commissioner does not approve payment. Extended delays of either principal or interest shall trigger an evaluation for an other-than-temporary impairment. An other-than-temporary impairment shall be recognized in situations when the reporting entity has made a decision to sell a surplus note prior to its maturity at an amount below its carrying value. If it is determined that a decline in fair value is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the difference between the surplus note's carrying value and the fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of impairment shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

17. In periods subsequent to the recognition of an other-than-temporary impairment loss for a surplus note, the holder of the surplus note shall account for the other-than-temporarily impaired surplus note as if the surplus note had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the surplus note on the measurement date shall become the new cost basis of the surplus note and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the surplus note, based on the new cost basis, shall be amortized over the remaining life of the surplus note in the prospective manner based on the amount and timing of future estimated cash flows. The surplus note shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

Disclosures

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

a. Date issued;

b. Description and fair value of the assets received;

c. Holder of the note or, if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per *SSAP No. 25—Affiliates and Other Related Parties*;

d. Original issue amount of note;

e. Carrying value of note;

f. The rate at which interest accrues;

g. Maturity dates or repayment schedules, if stated;

h. Unapproved interest and/or principal;

i. Life-to-date and current year approved interest and principal recognized;

    i. Percentage interest payments offset through 'administrative offsetting' (not inclusive of amounts paid to a third-party liquidity provider). For example, if $100 in interest was recognized through the year, $10 of which was remitted to a third-party liquidity provider and the reminder $90 was offset, the reporting entity shall report 100% as offset.

j. Disclosure of whether the surplus note was issued as part of a transaction with any of the following attributes:

    i. Do surplus note/associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements

contractually linked? (For example, the asset provides interest payments only when the surplus note provides interest payments.)

ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement? (This may be referred to as administrative offsetting.)

iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note?

k. Principle amount and fair value of assets received upon surplus note issuance, if applicable;

l. Subordination terms;

m. Liquidation preference to the reporting entity's common and preferred shareholders;

n. The repayment conditions and restrictions;

o. Information about any guarantees, support agreements or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

19. If a reporting entity has ceded business to a surplus note issuer that is a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in paragraph 18.j., the ceding entity shall provide a description of the transaction, including whether the criteria in paragraph 18.j. were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements, and the amount of notes outstanding.

20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, the following information shall be disclosed regarding the assets received:

a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation.

b. Book/adjusted carrying value of asset as of the current reporting date.

c. A description of terms under which liquidity would be provided should a triggering event occur.

21. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers

10. Q – How should hybrid securities be accounted and reported? [SSAP No. 26, paragraph 13]

10.1 A – SSAP No. 26 prior to the principles-based bond definition explicitly scoped in a class of assets referred to as "hybrid securities" which are defined as "securities whose proceeds are accorded some degree of equity treatment by one or more of the nationally recognized statistical rating organizations (NRSRO) and/or which are recognized as regulatory capital by the issuer's primary regulatory authority. Hybrid securities are designed with characteristics of debt and equity and are intended to provide protection to the issuer's senior note holders. Hybrid securities are sometimes referred to as capital securities." During the development of the principles-based bond

definition, it was decided to remove the explicit scope-in and instead rely on the new principles to determine whether bond classification is appropriate. As these securities come in several forms, additional clarity on where to report such securities is warranted.

10.2 Equity Securities: Investments that represent shares, units, or an ownership interest in a company or other entity but do not reflect common stock that were previously considered hybrids under SSAP No. 26 are equity investments and shall be captured as preferred stock in scope of *SSAP No. 32—Preferred Stock*. Investments in debt securities are not permitted to be reported in scope of *SSAP No. 30—Unaffiliated Common Stock* or SSAP No. 32.

10.3 Debt Securities: Investments in debt securities previously considered hybrids under SSAP No. 26 (including those debt securities with cumulative interest features) **that qualify** under the principles-based bond definition shall be reported as bonds on Schedule D. An example may include certain debt securities which NRSROs allow to be treated as equity but for which all the principles-based bond definition requirements are present. To be clear, a set maturity date for a debt security is not a requirement for bond classification if the bond otherwise qualifies under the definition. (Perpetual bonds that qualify under the bond definition are permitted as bonds.)

10.4 Investments in debt securities treated as regulatory capital by the issuer's primary regulatory authority, and **that do not qualify** under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an act of default are capital notes and shall be captured in *SSAP No. 41—Surplus Notes*. These capital notes are often issued by domestic or foreign banks, and the domestic or foreign bank regulator or the Issuer has the ability to cancel interest or dividends, without future interest accumulation or payment.

10.5 Debt securities other than capital notes (as defined in 10.4 above) that permit the issuing entity to cancel interest without future interest accumulation or payment and without triggering an act of default, or that incorporate other equity components that do not permit bond classification under the principles-based bond definition are non-bond debt securities and shall be captured in scope of *SSAP No. 21—Other Admitted Assets*.

10.6 Debt securities issued by regulated institutions where only the issuer's primary regulator may have regulatory power to cancel or convert to equity all or a portion of the debt and/or its related interest payments, solely in a resolution scenario were not previously considered hybrid securities and should continue to be reported as Schedule D bonds, as Issuer Credit Obligations under SSAP No. 26, so long as all principles-based bond definition requirements are met.

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):
On Nov. 17, 2024, the Statutory Accounting Principles (E) Working Group adopted *INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers.* This INT addresses hybrid securities, including debt securities that are treated as regulatory capital. With the adoption of this guidance, and the reference for capital notes to be in scope of SSAP No. 41, industry identified minor revisions are needed to SSAP No.41.

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 as a SAP clarification and expose revisions to *SSAP No. 41—Surplus Notes*, to incorporate needed changes to clarify certain aspects for capital notes. As part of the review, minor other clarification revisions were also incorporated.

Ref #2024-28

As there are two separate reporting lines on Schedule BA for "Surplus Notes" and "Capital Notes" with very few items currently being reported in the "Capital Note" category, this agenda item recommends annual statement instruction revisions to clarify that qualifying insurer-issued notes held by another insurance reporting entity be reported as "Surplus Notes" on Schedule BA. There is also proposed clarification on what should be included as "Capital Notes."

Proposed revisions to SSAP No. 41:

1. This statement establishes statutory accounting principles for issuers and holders of surplus notes, and for holders of capital notes[FN]. Statutory accounting principles for issuers of capital notes are provided in *SSAP No. 15—Debt and Holding Company Obligations*.

New Footnote: *INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers* identifies that debt securities treated as regulatory capital by the issuer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default are capital notes in scope of this statement. For consistency in investment reporting for held securities, only insurer-issued notes that qualify under paragraph 3 shall be reported as surplus notes. As detailed within, surplus notes are subject to additional restrictions not applicable capital notes.

Holders of Capital or Surplus Notes

9. Investments in capital or surplus notes meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement. Additionally, the amount admitted is specifically limited to the following two provisions:

a. In the absence of specific instruction pursuant to state law or direction of the domiciliary regulator, ~~T~~the admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted under state investment limits if the instrument was considered an equity instrument and added to any other equity instruments in the issuer held directly or indirectly by the holder of the capital or surplus note.

NAIC Staff Note: The SSAPs do not have equity limits for admitted assets. The above paragraph would pertain to state investment limits. This guidance requires capital and surplus notes to be combined with other equity items to determine whether the state investment limit for equity instruments has been surpassed. It is not characteristic of the SSAPs to detail provisions used in state investment limitations, but this paragraph has been part of SSAP No. 41 since codification. If preferred by Working Group members, this paragraph could be deleted.

b. The surplus note shall be nonadmitted if issued by an entity that is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital. Capital notes shall be nonadmitted in any event in which the regulatory authority halts principal or interest payments. Subsequent to this nonadmittance, if any of the conditions described ceased to exist, the holder may admit the capital or surplus note at the value determined under paragraph 11. If a capital or surplus note was nonadmitted pursuant to this paragraph, and the capital or surplus note was ultimately determined to be other-than-temporarily impaired, the reporting entity shall recognize a realized loss for the portion of the surplus note determined to be other-than-temporarily impaired, with elimination of a corresponding amount of the previously nonadmitted assets.

10. Capital or surplus notes shall be valued in accordance with paragraph 11. Pursuant to that paragraph, the value is determined by NAIC ~~credit rating provider (CRP) ratings~~designations. ~~Part One – Capital and Surplus Debentures of t~~The *Purposes and Procedures Manual of the NAIC Investment Analysis Office* provides guidance in determining the NAIC designation for these investments.

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11. If the capital or surplus note has been rated by an NAIC CRP and has a designation equivalent of NAIC 1 or NAIC 2, then it shall be reported at amortized cost. If the capital or surplus note ~~is not CRP rated~~does not have an NAIC designation or has an NAIC designation ~~equivalent~~ of NAIC 3 through 6, then the balance sheet amount shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes.

12. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

13. For surplus notes issued and held (directly or indirectly) between insurance reporting entities and subsidiary, controlled and affiliated entities, the guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* requires adjustment to prevent double-counting of surplus notes. For example, an insurance reporting entity is not permitted to report the issuance of a surplus note as an increase in surplus and have an asset representing an investment in the SCA that includes the issued surplus note (held by an SCA). Pursuant to SSAP No. 97, the "investment in the SCA" shall be adjusted to eliminate the surplus note issued by the direct or indirect parent insurance reporting entity. This treatment shall also apply for instances in which the SCA acquires any portion of outstanding surplus notes issued by the direct or indirect parent through any means (e.g., directly acquired from the parent, acquired through a third-party broker, or via the market).

Income

14. Only interest that has been approved by the issuer's domiciliary commissioner shall be accrued as income by a holder of surplus notes. Interest income for any period consists of interest collected during the period and the change in the due and accrued interest between the beginning and end of the period approved by the issuer's domiciliary commissioner.

15. Except for the specific limitations on recognizing interest income in paragraph 14, investment income, and the recognition of uncollectible accrued interest, shall follow the guidance in *SSAP No. 34—Investment Income Due and Accrued.*

Impairment

16. An other-than-temporary impairment(INT 06-07) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the surplus or capital note. Pursuant to the terms ~~of a surplus note~~, payments of principal and interest may be delayed if the issuer's domiciliary commissioner or other regulatory authority does not approve payment. Extended delays of either principal or interest shall trigger an evaluation for an other-than-temporary impairment. An other-than-temporary impairment shall be recognized in situations when the reporting entity has made a decision to sell a surplus note prior to its maturity at an amount below its carrying value. If it is determined that a decline in fair value is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the difference between the surplus note's carrying value and the fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of impairment shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

17. In periods subsequent to the recognition of an other-than-temporary impairment loss for a surplus or capital note, the holder of the surplus note shall account for the other-than-temporarily impaired surplus or capital note as if the ~~surplus~~ note had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the ~~surplus~~ note on the measurement date shall become the new cost basis ~~of the surplus note~~ and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the surplus or capital note, based on the new cost basis, shall be amortized over the remaining life of the ~~surplus~~ note in the prospective manner based on

the amount and timing of future estimated cash flows. The ~~surplus~~ note shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

Disclosures

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

a. Date issued;

b. Description and fair value of the assets received;

c. Holder of the note or, if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per *SSAP No. 25—Affiliates and Other Related Parties*;

d. Original issue amount of note;

e. Carrying value of note;

f. The rate at which interest accrues;

g. Maturity dates or repayment schedules, if stated;

h. Unapproved interest and/or principal;

i. Life-to-date and current year approved interest and principal recognized;

   i. Percentage interest payments offset through 'administrative offsetting' (not inclusive of amounts paid to a third-party liquidity provider). For example, if $100 in interest was recognized through the year, $10 of which was remitted to a third-party liquidity provider and the remainder $90 was offset, the reporting entity shall report 100% as offset.

j. Disclosure of whether the surplus note was issued as part of a transaction with any of the following attributes:

   i. Do surplus note/associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements contractually linked? (For example, the asset provides interest payments only when the surplus note provides interest payments.)

   ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement? (This may be referred to as administrative offsetting.)

   iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note?

k. Principle amount and fair value of assets received upon surplus note issuance, if applicable;

l. Subordination terms;

m. Liquidation preference to the reporting entity's common and preferred shareholders;

n. The repayment conditions and restrictions;

o. Information about any guarantees, support agreements or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

19. If a reporting entity has ceded business to a surplus note issuer that is a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in paragraph 18.j., the ceding entity shall provide a description of the transaction, including whether the criteria in paragraph 18.j. were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements, and the amount of notes outstanding.

20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, the following information shall be disclosed regarding the assets received:

a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation.

b. Book/adjusted carrying value of asset as of the current reporting date.

c. A description of terms under which liquidity would be provided should a triggering event occur.

21. ~~In addition to the above, a~~A reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933)~~, and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933~~.

Proposed Revisions to Annual Statement Instructions – Schedule BA

Surplus Debentures:

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, or other contingent evidence of indebtedness, that qualifies as a surplus note pursuant to *SSAP No. 41—Surplus Notes*, that is reported in the surplus of the issuer.

Capital Notes:

Include: This reporting line shall be utilized for held debt securities, that do not qualify as issued surplus notes pursuant to *SSAP No. 41—Surplus Notes,* that are treated as regulatory capital by the issuer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default. ~~The portion of any capital note that is reported on the line for capital notes of the issuance insurance reporting entity.~~

Staff Review Completed by: Julie Gann, NAIC Staff—December 2024

Status:
On December 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing as a SAP clarification and exposed revisions, as shown above, to *SSAP No. 41—Surplus Notes* to incorporate

changes to clarify capital notes references and guidance. With exposure, the Working Group agreed to sponsor a blanks proposal to update the definitions in the Schedule BA annual statement instructions as proposed above.

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted as final SAP clarification revisions to *SSAP No. 41—Surplus Notes*. These revisions were adopted with limited changes from the exposure, as detailed in the following bullets, but the adopted revisions to SSAP No. 41 are shown below:

- Paragraph 9a was deleted. (Paragraph 9b will become paragraph 9a.)
- Paragraph 18c was deleted with reference to related parties added to paragraph 21.

Adopted Revisions to SSAP No. 41:

1. This statement establishes statutory accounting principles for issuers and holders of surplus notes, and for holders of capital notes[FN]. Statutory accounting principles for issuers of capital notes are provided in *SSAP No. 15—Debt and Holding Company Obligations*.

New Footnote: *INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers* identifies that debt securities treated as regulatory capital by the issuer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default are capital notes in scope of this statement. For consistency in investment reporting for held securities, only insurer-issued notes that qualify under paragraph 3 shall be reported as surplus notes. As detailed within, surplus notes are subject to additional restrictions not applicable capital notes.

Holders of Capital or Surplus Notes

9. Investments in capital or surplus notes meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement. Additionally, the amount admitted is specifically limited to the following two provisions:

~~a. The admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity instruments in the issuer held directly or indirectly by the holder of the capital or surplus note.~~

~~b.~~a. The surplus note shall be nonadmitted if issued by an entity that is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital. Capital notes shall be nonadmitted in any event in which the regulatory authority halts principal or interest payments. Subsequent to this nonadmittance, if any of the conditions described ceased to exist, the holder may admit the capital or surplus note at the value determined under paragraph 11. If a capital or surplus note was nonadmitted pursuant to this paragraph, and the capital or surplus note was ultimately determined to be other-than-temporarily impaired, the reporting entity shall recognize a realized loss for the portion of the surplus note determined to be other-than-temporarily impaired, with elimination of a corresponding amount of the previously nonadmitted assets.

10. Capital or surplus notes shall be valued in accordance with paragraph 11. Pursuant to that paragraph, the value is determined by NAIC ~~credit rating provider (CRP) ratings~~designations. ~~Part One – Capital and Surplus Debentures of t~~The *Purposes and Procedures Manual of the NAIC Investment Analysis Office* provides guidance in determining the NAIC designation for these investments.

11. If the capital or surplus note has been rated by an NAIC CRP and has a designation equivalent of NAIC 1 or NAIC 2, then it shall be reported at amortized cost. If the capital or surplus note ~~is not CRP rated~~does not have an NAIC designation or has an NAIC designation ~~equivalent~~ of NAIC 3 through 6, then the balance sheet amount

shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes.

12. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

13. For surplus notes issued and held (directly or indirectly) between insurance reporting entities and subsidiary, controlled and affiliated entities, the guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* requires adjustment to prevent double-counting of surplus notes. For example, an insurance reporting entity is not permitted to report the issuance of a surplus note as an increase in surplus and have an asset representing an investment in the SCA that includes the issued surplus note (held by an SCA). Pursuant to SSAP No. 97, the "investment in the SCA" shall be adjusted to eliminate the surplus note issued by the direct or indirect parent insurance reporting entity. This treatment shall also apply for instances in which the SCA acquires any portion of outstanding surplus notes issued by the direct or indirect parent through any means (e.g., directly acquired from the parent, acquired through a third-party broker, or via the market).

Income

14. Only interest that has been approved by the issuer's domiciliary commissioner shall be accrued as income by a holder of surplus notes. Interest income for any period consists of interest collected during the period and the change in the due and accrued interest between the beginning and end of the period approved by the issuer's domiciliary commissioner.

15. Except for the specific limitations on recognizing interest income in paragraph 14, investment income, and the recognition of uncollectible accrued interest, shall follow the guidance in *SSAP No. 34—Investment Income Due and Accrued.*

Impairment

16. An other-than-temporary impairment(INT 06-07) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the surplus or capital note. Pursuant to the terms ~~of a surplus note~~, payments of principal and interest may be delayed if the issuer's domiciliary commissioner or other regulatory authority does not approve payment. Extended delays of either principal or interest shall trigger an evaluation for an other-than-temporary impairment. An other-than-temporary impairment shall be recognized in situations when the reporting entity has made a decision to sell a surplus note prior to its maturity at an amount below its carrying value. If it is determined that a decline in fair value is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the difference between the surplus note's carrying value and the fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of impairment shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

17. In periods subsequent to the recognition of an other-than-temporary impairment loss for a surplus or capital note, the holder of the surplus note shall account for the other-than-temporarily impaired surplus or capital note as if the ~~surplus~~ note had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the ~~surplus~~ note on the measurement date shall become the new cost basis ~~of the surplus note~~ and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the surplus or capital note, based on the new cost basis, shall be amortized over the remaining life of the ~~surplus~~ note in the prospective manner based on the amount and timing of future estimated cash flows. The ~~surplus~~ note shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

Disclosures

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

a. Date issued;

b. Description and fair value of the assets received;

~~c. Holder of the note or, if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per *SSAP No. 25—Affiliates and Other Related Parties*;~~

~~d.~~c. Original issue amount of note;

~~e.~~d. Carrying value of note;

~~f.~~e. The rate at which interest accrues;

~~g.~~f. Maturity dates or repayment schedules, if stated;

~~h.~~g. Unapproved interest and/or principal;

~~i.~~h. Life-to-date and current year approved interest and principal recognized;

i. Percentage interest payments offset through 'administrative offsetting' (not inclusive of amounts paid to a third-party liquidity provider). For example, if $100 in interest was recognized through the year, $10 of which was remitted to a third-party liquidity provider and the remainder $90 was offset, the reporting entity shall report 100% as offset.

~~j.~~i. Disclosure of whether the surplus note was issued as part of a transaction with any of the following attributes:

i. Do surplus note/associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements contractually linked? (For example, the asset provides interest payments only when the surplus note provides interest payments.)

ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement? (This may be referred to as administrative offsetting.)

iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note?

~~k.~~j. Principle amount and fair value of assets received upon surplus note issuance, if applicable;

~~l.~~k. Subordination terms;

~~m.~~l. Liquidation preference to the reporting entity's common and preferred shareholders;

~~n.~~m. The repayment conditions and restrictions;

~~o.~~n. Information about any guarantees, support agreements or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

Ref #2024-28

19. If a reporting entity has ceded business to a surplus note issuer that is a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in paragraph 18.j., the ceding entity shall provide a description of the transaction, including whether the criteria in paragraph 18.j. were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements, and the amount of notes outstanding.

20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, the following information shall be disclosed regarding the assets received:

a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation.

b. Book/adjusted carrying value of asset as of the current reporting date.

c. A description of terms under which liquidity would be provided should a triggering event occur.

21. ~~In addition to the above, a~~A reporting entity shall identify all related parties and affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933)~~, and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933~~.

Revisions to Annual Statement Instructions – Schedule BA

Surplus Debentures:

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, or other contingent evidence of indebtedness, that qualifies as a surplus note pursuant to *SSAP No. 41—Surplus Notes*, that is reported in the surplus of the issuer.

Capital Notes:

Include: This reporting line shall be utilized for held debt securities, that do not qualify as issued surplus notes pursuant to *SSAP No. 41—Surplus Notes,* that are treated as regulatory capital by the issuer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default. ~~The portion of any capital note that is reported on the line for capital notes of the issuance insurance reporting entity.~~

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1A8-24-28 - SSAP No. 41 - Capital Notes.docx

Statutory Accounting Principles (E) Working Group
February 25, 2025
Comment Letters Received

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
Comment Letters Received for Items Planned for Discussion on Feb. 25, 2025	
Interested Parties – December 16, 2024 (Updated January 30, 2025) o Ref #2022-14: New Market Tax Credits o Ref #2023-24: Current Expected Credit Losses (CECL) *(Note: Not all items in this letter are planned for discussion on Feb. 25, 2025.)*	2-15
Interested Parties – January 31, 2025 o Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts o Ref #2024-16: Repacks and Derivative Investments o Ref #2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards o Ref #2024-23: Derivative Premium Clarifications o Ref #2024-24: Medicare Part D – Medicare Prescription Payment Programs o Ref #2024-25: SSAP No. 16 Clarifications o Ref #2024-27: Issue Papers in the Statutory Hierarchy o Ref #2024-28: Holders of Capital Notes *(Note: Not all items in this letter are planned for discussion on Feb. 25, 2025.)*	16-27
AHIP / BCBSA – January 31, 2025 o Ref #2024-24: Medicare Part D – Medicare Prescription Payment Programs	28-40

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1a9-comments/00 - comment letter toc.docx

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December 16, 2024

Updated January 30, 2025: See Ref #2022-14 and Repurchase Agreements beginning on page 9 (both indicated by ***)

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due December 16th

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due December 16 th.

Ref #2022-14: *New Market Tax Credits**

On May 16, 2023, the Working Group exposed revisions to SSAP No. 93 – *Investments in Tax Credit Structures*, and 94R – *State and Federal Tax Credit*. The revisions to SSAP No. 93 propose adoption with modification of ASU 2023-02 and expansion of the SSAP scope to include all tax credit programs and tax investment structures. The revisions to SSAP No. 94R expand the scope of the SSAP to include all state and federal tax credits whether purchased or allocated, and that tax received should be recorded at face value with losses realized immediately and gains deferred.

Interested parties have no comments on this item.

Ref #2023-24: Current Expected Credit Losses (CECL)

The Working Group exposed for comment an Issue Paper to document for the historical record the Generally Accepted Accounting Principles impairment guidance which existed prior to the implementation of *Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses* (CECL). In January 2024, the Working Group rejected CECL for statutory accounting purposes and directed NAIC staff to prepare this issue paper. Since many SSAPs adopted pre-CECL impairment

guidance, the Working Group wanted to ensure that any guidance which was superseded by CECL was readily available for future use.

Interested parties agree with the concepts noted in the draft Issue Paper but would like additional time to address some of the descriptions of current GAAP practice versus statutory accounting to ensure that the descriptions are technically correct.

Ref #2024-04: Conforming Repurchase Agreements Assets

On August 13, 2024, the Working Group exposed this agenda item along with a memo detailing accounting and reporting guidance for repurchase agreements and securities lending transactions.

Interested parties have repeated the memo below and provided comments in italics following each section.

Overview: Fundamentally, securities lending and repurchase/reverse repurchase (Repo) transactions perform similar functions and are entered into for short-term collateralized funding/lending. Although some articles identify that the type of collateral exchanged (security or cash) is a key difference, from discussions with industry cash or securities can be used as collateral under either a security lending or repo agreement. Industry has identified that the counterparty is a key difference between the transactions.

Although similar in function, the accounting and reporting for securities lending and repurchase transactions are different under statutory accounting even when both are accounted for under the "secured borrowing" approach. (All scenarios below focus on secured borrowing accounting, and not as a "sale," as that is the more prevalent accounting approach.)

This memo intends to document the current accounting guidance and identify how NAIC staff believe accounting and reporting should be reflected. The Working Group is requesting comments on this memo, particularly within the established notes. Subsequently, NAIC staff plan to propose statutory accounting and reporting changes to reflect a consistent approach between securities lending and repurchase transactions.

The guidance for securities lending / borrowings and repo agreements are *in SAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Although other aspects of the SSAP are applicable, focused guidance for these transactions are in the following paragraphs:

- Securities Lending: Paragraphs 85-92.
- Securities Borrowing: Paragraphs 93-95
- Repurchase Agreements: Paragraphs 102-104 & 113
- Reverse Repurchase Agreements: Paragraphs 111-113

Broad concepts for secured borrowing are in paragraph 19. The concepts for securities lending differ from this guidance with the requirement to recognize items on balance sheet with the ability to sell/repledge collateral. Disclosure guidelines for these transactions are in paragraph 28.
The "conforming" securities lending guidelines are captured in the RBC instructions. The full detail of the requirements is included as an appendix to this memo, but collateral requirements include:

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

Securities Lending – Reporting Entity Lends a Security and Receives Collateral in Exchange:

A security lending transaction involves the temporary transfer of securities from one party (security lender) to another party (security borrower) and with the lender receiving collateral from the borrower to protect against the risk of loss. The lender receives a fee for the use of the security. Under statutory accounting guidance, the accounting for security lending depends on whether the reporting entity has the ability to pledge or sell the collateral received.

1. Lending Entity Cannot Sell / Repledge Security Collateral Received:

a) Reporting entity lends a security under a secured borrowing agreement. The reporting entity retains the lent security on books and codes it as a restricted asset.

b) Reporting entity lender does not recognize security collateral received as an asset and does not recognize an obligation to return the collateral.

c) If the fair value of the collateral received drops below 100% of the fair value of the loaned security, then the reporting entity (lender) is to nonadmit a portion of loaned security (which is still reported on the books). The amount nonadmitted should be the difference between the collateral and the security reported on the books. (This calculation is done at any point in time – so for a lent $100 bond, if the fair value of the bond declines to $90, then the collateral comparison would be done to the current FV of the bond, and not the FV at the time the security was lent. So, if collateral was received at $102, and declined to $90 (matching the bond), nonadmittance would not be required.) The comparison is also completed in aggregate by counterparty, so if the collateral for one security was to appreciate in value, and the collateral for another was to decline, as long as the combined collateral value continued to represent 100% of the fair value of the loaned securities, additional collateral would not be required.

The Restricted Asset / RBC Impact is as follows:

d) The retained asset lent to the counterparty should be identified as a restricted asset. This loaned asset shall be captured on general interrogatory (GI) line 25.04 or GI line 25.05 based on whether the security lending arrangement is considered to be a ‘conforming’ security lending program. Amounts reported on these lines flow to LR017 (Off-Balance Sheet and Other Items), lines 1 and 2. Items captured in GI line 25.04 (conforming) receive a 0.0020 RBC charge. Items captured in GI line 25.05 (nonconforming) receive a 0.0126 RBC charge. There is no current disclosure on the type of collateral received for these off-balance sheet programs. As such, regulators cannot verify from the financial statements whether the program complies with the “conforming” program requirements. However, as the collateral cannot be

sold/repledged, if the collateral complies with the conforming requirements, there would be no change to that assessment over the duration of the transaction. ***(Note 1)***

e) As the collateral asset is not recognized on book of the lender, there is no RBC asset (C-1) charge. As the collateral asset is not recognized, there is no restricted asset reporting or RBC restricted asset charge. The restricted asset charge is placed on the asset that is lent but still retained on the books as discussed above in paragraph 1d. ***(Note 2)***

Note 1: Should the type of collateral received in these programs be captured in a financial statement disclosure to allow for regulator verification of the "conforming" program guidelines? Additionally, it has been noted that the admittance calculation focuses solely on the fair value comparison of the collateral received to the security lent. However, there is no current guidance that assesses admittance based on the quality/type of collateral received. Under the current guidance, residuals or low-quality assets could be received and there is no documentation of this type of collateral for certain sec lending and repo programs. Even if these programs would not qualify as conforming, there is a question on whether admittance restrictions should exist based on the collateral received from the counterparty.

Interested parties' response: Given the deferral of the conforming repo proposal, only conforming sec lending programs will be subject to the conforming guidelines. In these programs, the insurer attests to the conforming criteria. One possible additional disclosure could be footnote like footnote 5.E.8 for repo, whereby the collateral received is specified by asset type.

In typical security lending programs, the insurer receives cash in these transactions, but the master agreement between the counterparties also allows the insurer to receive high-quality collateral – restrictively defined as "acceptable collateral" - which must be marked to market regularly for ongoing margining purposes. Regardless of whether the program is conforming or not, the combination of daily margining and the restrictive definition of "acceptable collateral" should provide NAIC with sufficient comfort that additional admittance restrictions on collateral received would be duplicative.

Note 2: NAIC staff believes there is inconsistent application of the current guidance as there is a disconnect in language between RBC and the Blanks on whether the collateral received or the lent asset is identified as a restricted asset. The blanks instructions in GI 25.04 and GI 25.05 identify the "Amount of Collateral." The lines in RBC identify "Loaned to Others." This inconsistency in terminology likely causes confusion on whether the amount reported should be the lent security or the collateral received in exchange. NAIC staff suggest clarifying terminology for consistency purposes, clarifying that the loaned asset retained on book should be the amount reported as restricted that flows through all schedules.

Interested parties' response: *We agree that consistent terminology should be established between Blanks and RBC to clarify that the loaned security is identified as a restricted asset. We suggest that Blanks references to "Amount of Collateral" in GI 25.04 and GI 25.05 should be changed to "Loaned to Others," consistent with RBC.*

2. Lending Entity Can Sell / Repledge Collateral Received – (Also Applies to Cash Collateral)

a) Reporting entity lends a security under a secured borrowing agreement. The reporting entity retains the lent security on books and codes it as a restricted asset.

b) Reporting entity lender recognizes collateral received from the counterparty on its book and recognizes a liability to return the collateral. (This collateral is reported on Schedule DL.) If security collateral is captured directly on the investment schedules, the collateral is **not** coded as a restricted asset. *(See paragraph 2f.)*

c) If the fair value of the collateral received drops below 100% of the fair value of the loaned security, then the reporting entity is to nonadmit a portion of loaned security (which is still reported on the books). The amount nonadmitted should be the difference between the collateral and the security reported on the books. (This calculation is done at any point in time – so for a lent $100 bond, if the fair value of the bond declines to $90, then the collateral comparison would be done to the current FV of the bond, and not the FV at the time the security was lent. So, if collateral was received at $102, and declined to $90 (matching the bond), nonadmittance would not be required.) The comparison is also completed in aggregate by counterparty, so if the collateral for one security was to appreciate in value, and the collateral for another was to decline, as long as the combined collateral value continued to represent 100% of the fair value of the loaned securities, additional collateral would not be required. ***(Note 3 & Note 4)***

The Restricted Asset / RBC Impact is as follows:

d) The retained asset lent to the counterparty should be identified as a restricted asset. This loaned asset shall be captured on GI line 25.04 or GI line 25.05 based on whether the security lending agreement is considered to be a 'conforming' security lending program. Amounts reported on these lines flow to LR017 (Off-Balance Sheet and Other Items), lines 1 and 2. Items captured in GI line 25.04 (conforming) receive a 0.0020 RBC charge. Items captured in GI line 25.05 (nonconforming) receive a 0.0126 RBC charge. ***(Note 5)***

e) The current collateral recognized on the balance sheet is subject to the corresponding asset (C-1) RBC charge. (This occurs directly from the investment schedule, or indirectly from Schedule DL if the program is administered by a third-party administrator.) The RBC charge depends on the form of the collateral. (This recognition occurs regardless of whether the original collateral is reinvested.)

f) The collateral reported on book as it can be sold/repledged, is not coded as a restricted asset as there is an offsetting liability recognized for the obligation to return the collateral. Identifying both the lent security and the on-book collateral as restricted assets, particularly with the offsetting liability to return the collateral would result in a double-counting of restricted asset charges for the same transaction.

g) On day 1, both the collateral asset received and liability to return are recognized at fair value. Subsequently, the asset is measured pursuant to the applicable SSAP and the liability to return shall be adjusted as needed to reflect the current fair value of the collateral originally received. If the collateral received is reinvested, the resulting asset shall be accounted for pursuant to the applicable SSAP. As the measurement method for the collateral asset on book may not reflect fair value, this may result in a disconnect between the collateral asset and liability to return reported, but the reporting entity's liability to return the collateral shall always reflect the full obligation (fair value) to return collateral originally received.

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Note 3: As the collateral can be sold/repledged, there is a question on the application of the admittance provisions in paragraphs 91-92 of SSAP No. 103. That guidance is focused on the fair value of the original collateral received in comparison to the fair value of the security lent. Once the collateral has been reinvested, the reporting entity is responsible for the reinvestment risk and the counterparty is not responsible for fair value changes of the reinvested security. Although a position could be taken that the fair value of the collateral originally received should continue to be compared to the fair value of the lent security to determine if more collateral needs to be provided, with the current financial statement reporting, this information is not captured to allow assessments once the collateral has been reinvested allowing regulators to verify the admittance provisions.

Interested parties' response: *We do not believe that there is any ongoing need to compare the fair value of the original collateral received in comparison to the fair value of the security lent. One salient feature of securities lending and repurchase agreement transactions is that exchange of variation margin covers the differences that emerge over time between the original market value of the security lent and the original market value of the collateral received. The margining process maintains equality between the market value of the collateral received – plus or minus any variation margin – and the market value of the security lent. This market structure obviates the need for regulators to generate an admittance test on whether the fair value of original collateral received compares with the fair value of the security lent.*

Existing disclosures also provide regulators with sufficient visibility:

1. *Footnote 5.E.5 b: The reinvestment portfolio acquired with cash received consisted principally of high quality, liquid, publicly traded long term bonds, short term investments, cash equivalents, or held in cash. If the securities sold or the reinvestment portfolio become less liquid, the Company has the liquidity resources of most of its general account available to meet any potential cash demands when securities are returned to the Company.*
2. *Footnote 5.E.5 provides a maturity schedule for the collateral received.*
3. *Schedule DL provides full transparency and look-through to the assets in the reinvestment portfolio.*

In summary, existing financial statements disclose the risk and maturity summary in the footnotes and provide a full schedule for reinvested assets. The fair value security lent and collateral received continue to be matched via the margining process.

Note 4: With regards to the admittance calculation, there is also a question on application when the original collateral still covers 100% of the BACV of the loaned security but does not meet the requirement for 100% of the loaned security's fair value. As an example, if the loaned security at amortized cost has a BACV of $90, but had a fair value of $100 when loaned, the guidance in paragraph 91 requires collateral of $102 at the onset of the transaction. If the original collateral was to decrease in fair value to $98, it would no longer comply with the guidance in paragraph 91 and nonadmittance of the loaned security for $2 is expected under the guidance ($100 - $98). However, as the loaned security is reported at BACV of $90, the collateral still covers the full reported value of the loaned security. If the counterparty was to default, the reporting entity would eliminate the loaned security ($90) and the liability to return the collateral ($98) from the books and retain the collateral asset as their own. This transaction would result in an $8 gain for the reporting entity. If the loaned security had been nonadmitted by $2 prior to the default

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due to the FV decline of the collateral, there would have been a surplus hit of $2 for the nonadmittance. Upon the counterparty default, in addition to the $8 gain, there would have then been a surplus bump of $2 with the elimination of the nonadmitted asset. *(It is noted that if the fair value for the collateral asset had been retained, the reporting entity would have had a greater gain, but they are still fully covered based on how the loaned asset is reported.)* NAIC staff requests confirmation of the admittance guidance and its application from regulators, particularly when the fair value of the collateral continues to cover the BACV of the loaned security.

Interested parties' response: *We agree with NAIC staff's recommendation that admittance calculations should be based on the fair value of the original collateral and loaned security, as opposed to book value. As discussed above, the margining provisions of these contracts ensures that market values, rather than book values, remain aligned over the term of each transaction.*

Note 5: As the collateral received can be sold/repledged, there is a question on the application of the "conforming security lending" collateral requirements. From a broad review of financial statements, collateral reported on Schedule DL was identified as outside of the conforming parameters, but the security lending program was identified as "conforming" with the lower RBC charge. NAIC staff recommend clarification on the application of the "conforming" requirements. Particularly, if the intent is to permit a lower RBC charge due to the liquidity / stability of certain types of collateral, then it may be appropriate to require the collateral to always comply with the "conforming" provisions regardless of if it has been reinvested by the reporting entity.

Interested parties' response: *We believe that the narrow definition of "acceptable collateral," which is intended to be applied **only** to the original collateral received against the lent security, has been misapplied to the reinvestment portfolio. Acceptable asset classes in the reinvestment portfolio are defined in the portfolio's Investment Guidelines, not by the "acceptable collateral" criteria. Applying the narrow definition of "acceptable collateral" to the reinvestment portfolio could disrupt the economic viability of these programs.*

3. Securities Borrowing – Entity Borrows a Security and Provides Collateral in Exchange

a) Reporting entity borrower retains security collateral provided to counterparty on book and codes it as a restricted asset. (If providing cash in exchange for the borrowed security, then the cash is derecognized with a receivable for the return.) ***(Note 6)***

b) Reporting entity borrower does not recognize the borrowed security on their books, unless the reporting entity sells the borrowed security or the counterparty defaults. If the reporting entity sells the borrowed security, the cash received or reinvested asset is recognized with an obligation (liability) to return the borrowed security. Pursuant to paragraph 94 of SSAP No. 103, assets equivalent to the fair value of the borrowed security shall be coded as a restricted asset. Specific guidance exists in SSAP No. 103 for when borrowed securities are used to settle a short-sale. (A counterparty default would always result with an unwinding of the transaction with each party reporting the asset they have in their possession as their resulting asset.) ***(Note 7 & 8)***

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The Restricted Asset / RBC Impact is as follows:

c) The retained asset (provided as collateral to a counterparty) is still on the reporting entity's investment schedules and should continue to receive the RBC asset C-1 charge. It should also be coded as a restricted asset. Due to the reporting lines available, it could be coded as "collateral held under securities lending agreements" or as an "other" restricted asset and captured in GI 26.32. If captured as a collateral within a security lending agreement, would be captured on GI line 25.04 or GI line 25.05 based on whether it is from a 'conforming' security lending program. Amounts reported on these lines flow to LR017 (Off-Balance Sheet and Other Items), lines 1 and 2. Items captured in GI line 25.04 (conforming) receive a 0.0020 RBC charge. Items captured in GI line 25.05 (nonconforming) receive a 0.0126 RBC charge. If reported as an "other" restricted asset, it would be captured on GI 26.32 with a 0.0126 RBC charge.

d) There would be no RBC impact for the borrowed security unless it is sold. At that time, the reinvested asset would be recognized and subject to an RBC asset C-1 charge. This asset (or an equivalent of other assets) would be identified as restricted. This is likely "collateral held under security lending agreement" and reported based on conforming /nonconforming in GI line 25.04 (0.0020 factor) or 25.05 (0.0126 factor).

Note 6: A security borrowing transaction is the flipside of the security lending transaction, with the reporting entity operating on the opposite side as borrower instead of lender. With this dynamic, it is presumed that the same restricted asset categories, and whether it is a conforming program, would be determinants in reporting the restricted asset and in the resulting RBC charge. NAIC staff requests confirmation of this assessment. (A security borrowing is the transaction, and it is accounted for as a "secured borrowing" – this terminology can be confusing when discussing the design.)

Interested parties' comments on Notes 6-8: *From the insurer's perspective, securities borrowing transactions have a very different structure than securities lending transactions. Insurers have not, and do not anticipate, requesting the establishment of "conforming securities borrowing" programs with changes to RBC.*

Note 7: The guidance for a security borrowing could result with restricted asset reporting for both the collateral provided (if not cash collateral) as well as for the reinvested borrowed securities that the reporting entity has sold. NAIC staff notes that this could be a double hit of restricted asset charges and recommends comments on paragraph 94 of SSAP No. 103 on the elimination of the restricted asset requirement for the assets received from the sale of the borrowed security. It is noted that the reporting entity would already have a liability recognized to return the borrowed security to the counterparty.

See interested parties' comments above.

Note 8: For security borrowing transactions, it is identified that both a receivable and payable from the counterparty could be recognized. A receivable - if cash was originally provided as collateral for the return of the cash - and a payable - if the reporting entity sold the borrowed security for the obligation to return the security. This dynamic could result in a netting of the transactions under SSAP No. 64. If netted, then the regulators would not be able to identify these aspects within the financial statements, but the provisions that permit netting under SSAP No. 64 (legal right to offset) may be present.

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See interested parties' comments above.

Repurchase Agreements***

Repurchase agreements, by definition, are agreements in which a reporting entity sells a security and simultaneously agrees to repurchase the security or a substantially similar security at a stated date and price. Repurchase agreements are functionally similar to securities lending. These transactions are generally captured as "secured borrowings" due to the requirement to repurchase the security transferred but could qualify as "sale" transactions. As very few (if any) are captured as sales under statutory accounting, this assessment will only focus on those captured as "secured borrowings."

Reporting entities can operate on both sides of repurchase agreements. If the reporting entity is selling a security and receiving cash (cash taker), it is considered a repurchase agreement. If the reporting entity is buying a security and providing cash (cash provider) it is considered a reverse repurchase agreement. SSAP No. 103 is explicit that only short-term repo agreements (with a stated short-term maturity date of 365 days or less) are allowed as admitted assets. Long-term repo agreements (with maturity dates in excess of 365 days) are nonadmitted.
There is no current concept for a "conforming repurchase agreement" and incorporating this concept, allowing for a lower RBC charge, was the request of the ACLI to the Life RBC Working Group.

4. **Repurchase Agreement – Reporting Entity Sells Security and Receives Cash / Collateral**

a) Reporting entity (cash taker) retains sold security on book and codes it as a restricted asset. This would remain an asset of the reporting entity unless the reporting entity defaults under the terms of the secured borrowing agreement. If that occurs, the reporting entity would derecognize the asset and eliminate the obligation to return the cash collateral per subparagraph (b).

b) Reporting entity recognizes cash received and obligation to return cash. (If security collateral is received, it is off-balance sheet unless that collateral is sold by the reporting entity. If sold, the reporting entity recognizes the proceeds from the sale and the obligation to return the collateral to the repo counterparty.) This process for security collateral received under a repurchase agreement is different from securities lending. Under security lending, if collateral received can be sold or repledged, even if it is not sold or repledged, the collateral is reported on balance sheet with an obligation to return. The disclosure guidance for repurchase agreements varies significantly from securities lending transactions as Schedule DL does not apply to repurchase agreements. As such, for repurchase agreements, there is no detail that identifies collateral held when the collateral can be sold/repledged. ***(Note 9)***

c) For repurchase agreements the reporting entity should receive proceeds (collateral) with a fair value of at least 95% of the fair value of the sold security. So, if the security has a FV of $100, proceeds (collateral) of $95 is required. If the FV of the proceeds (collateral) is not sufficient, then nonadmittance of the "sold" security for the amount of the shortfall is required. So, if only 93% collateral was received, the security "sold" but still reporting on-book would only be admitted for $98 with nonadmittance of $2. ***(Note 10)***

The Restricted Asset / RBC Impact is as follows:

a) The retained asset (sold to the counterparty) is still on the investment schedule and should continue to receive the RBC asset (C-1) charge. It should also be coded as a restricted asset as "subject to repurchase agreements" and captured in GI 26.21. This would then be captured in LR017 on line 3, "subject to repurchase agreements" and would receive a 0.0126 RBC charge. Under SSAP No. 103, repo agreements must be short-term to be admitted. If the repo agreement extends beyond 365 days, then the asset sold (retained on the book) would be identified as a nonadmitted asset.

b) The cash proceeds (collateral) would be recorded as cash and flow through on Schedule E - Part 1 - Cash to LR012 with a .0039 RBC charge. If the cash is used to acquire another security, then the acquired security would be reported on the investment schedules and flow through to RBC accordingly based on the investment.

Note 9: Due to the similarities in overall function between securities lending and repurchase agreements, NAIC staff supports consistent accounting, reporting and disclosures. NAIC staff recommends expanding Schedule DL to capture repurchase agreements, and a reassessment of the repurchase agreement disclosures to determine whether the level of detail should be retained.

Interested parties' response: Extending Schedule DL to repurchase agreements makes sense only for any future "conforming repo" programs that have segregated assets in the reinvestment portfolio. In certain cases, repo can be used for secured borrowing whereby the cash is used for alternative purposes and not explicitly reinvested. Since industry is no longer requesting the establishment of conforming repo programs, we believe that Schedule DL should not be extended to repo programs at this time.

Note 10: The same concept issues exist for the nonadmittance of reported securities under repo transactions than what exist under the securities lending transactions. Under current guidance, if the fair value of the sold security was to increase, more proceeds (collateral) is required or the sold security is subject to nonadmittance. If collateral was reinvested, the comparison would have to be based on the original collateral received and not the reinvested collateral. Also, there is the question on nonadmittance when the collateral received still covers the BACV of the sold security.

Interested parties' response (similar to Note 3): One salient feature of securities lending and repurchase agreement transactions is that exchange of variation margin covers the differences that emerge over time between the original market value of the security lent and the original market value of the collateral received. The margining process therefore aligns the ***market value*** of the collateral received – plus or minus any variation margin – with the ***market value*** of the security lent. This market structure obviates the need for regulators separately to test the market value of original collateral received in comparison with the fair value of the security lent. Additionally, repo funding proceeds may be used for purposes outside of a reinvestment portfolio which results in a lack of asset base to test against for nonadmittance.

Reverse Repurchase Agreement – Reporting Entity Buys Security and Provides Cash / Collateral

a) Reporting entity (cash provider) acquires security from counterparty but does not report the security on their investment schedule. (The reporting entity would recognize the asset if the counterparty defaulted on the agreement.) ***(Note 11)***

i. If the reporting entity sells the acquired security, the reporting entity would recognize the cash proceeds from the sale and an obligation to return the security to the counterparty. If the cash proceeds are reinvested, then the acquired investment would be on the applicable investment schedule.

b) Reporting entity derecognizes the cash provided to acquire the security and recognizes a receivable for the cash return. This is captured as a short-term investment on Schedule E-2. If the reverse repo agreement was long-term, it shall be nonadmitted.

i. If the reporting entity provides security in exchange for the security (instead of cash), the security would remain on the reporting entity's investment schedules, coded as a restricted asset.

c) For reverse repurchase agreements the reporting entity should receive securities with a fair value of at least 102% of the purchase price (cash or securities transferred). So, if the cost of the transaction is $100, the reporting entity should receive securities worth $102. ***(Note 12)***

The Restricted Asset / RBC Impact is as follows:

d) The acquired asset is not reported unless the counterparty defaults or unless the reporting entity sells the acquired assets. Unless one of these things occurs, there is no RBC impact for the acquired asset under a reverse repo. (If those transactions occur, then the RBC is determined by the resulting security reported on the investment schedule.)

e) The receivable for the return of the cash collateral would be recorded as a short-term investment on Schedule E – Part 2 and flow through to LR012 with a .0039 RBC charge. This receivable would also be coded as restricted as an "asset subject to a reverse repurchase agreement" on GI 26.23. This would flow to LR017 line 6 and would receive a 0.0126 RBC charge. ***Note 13***

Note 11: The SSAP No. 103 guidance for reverse repo transactions does not have an explicit nonadmittance component if the % threshold is not met. Clarification on what should occur if the adequate collateral is not received / retained is recommended. Additionally, it has been noted that there is no current guidance that assesses admittance based on the quality/type of collateral received. Under the current guidance, residuals or low-quality assets could be received and there is no documentation of this type of collateral for certain sec lending and repo programs. Even if these programs would not qualify as conforming, there is a question on whether admittance restrictions should exist based on the collateral received from the counterparty.

Interested parties' comments on Notes 11-13: In terms of general quality of collateral received in reverse repo transactions, we do not believe there should be regulatory restrictions on the type of collateral that is eligible to be received, other than it being a permitted investment for the reporting entity. The yield earned on the transaction and haircut charged reflects the quality of the collateral.

Maintenance of the collateralization threshold is governed by the legal document (MRA or MSLA) between the counterparts. While collateralization threshold is one of the criteria for a conforming securities lending program, there is no intention to establish conforming reverse repo programs. We

believe that regulators should derive comfort on collateralization thresholds from the existing legal agreements between counterparts.

Note 12: SAP does not currently capture details on securities acquired upon the sale of the asset acquired under a reverse repo. The note disclosures only detail aggregate amounts.

See interested parties' comments on Notes 11-13 above.

Note 13: The guidance does not explicitly indicate that the short-term receivable recorded for reverse repurchase transactions should be coded as a restricted asset and taken to GI 26.23. However, as the restricted asset note detailed in SSAP No. 1 and GI 26.23 both capture "assets subject to reverse repurchase agreements," this reference can only refer to the short-term receivable as there is no other asset reported on the books from the transaction. Assessment may be warranted on identification of restricted assets on reverse repurchase transactions.

Interested parties' comments: Interested parties do not believe that there is a cogent rationale for restricting the short term lending receivable. Other short-term lending receivables - CDs, CP and Short Term ABS – are not considered "restricted". Nothing in these short term loans implies lack of exclusive control or encumbrances or third party interests prohibiting the insurer from using these short term loans (or the collateral obtained therefrom at 102% FMV or greater) to satisfy policyholder obligations.

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Appendix A – "Conforming" Securities Lending Guidance from RBC Instructions

Line (1) Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

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

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

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

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

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

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

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

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

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

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

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

* * * *

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Thank you for the opportunity to comment on the above items. Please feel free to contact either one of us if you have any questions or would like to discuss further.
Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1a9-comments/dkb2426-1.30.25.docx

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January 31, 2025

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
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RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due January 31st

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due January 31st.

Ref #2023-28: Collateral Loan Reporting

The Working Group re-exposed this agenda item detailing the proposed reporting lines for Schedule BA and AVR. This item was re-exposed to allow for concurrent exposure with blanks proposal 2024-19BWG. Comments received by the Blanks (E) Working Group and the SAPWG will be reviewed collectively.

Interested parties have responded (responses are in *italics*) to the following elements for which feedback was requested during the exposure:

1) Should collateral loans backed by mortgage loans be included in the new collateral loan category, or should those continue to flow through the "Investments with the Underlying Characteristics of Mortgage Loans" permitted during the interim as the long-term resolution?
Interested parties believe the 'Collateral Loans – Backed by Mortgage Loans' Schedule BA subcategory should continue to flow through the "Investments with the Underlying Characteristics of Mortgage Loans" AVR category until a permanent solution is identified.

   If captured in the new collateral loan AVR category, to what extent should the underlying characteristic lines detailing quality / past due / foreclosure status (AVR lines 38-64) be duplicated?

Interested parties believe there should be just 1 category in AVR for 'Collateral Loans – Backed by Mortgage Loans' and not bifurcate between quality / past due / foreclosure status. The accounting for Collateral Loans will be able to appropriately report the fair value of the underlying collateral.

2) What additional reporting lines (breakouts) of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment purposes?

Interested parties believe no changes in the following breakouts are warranted at this time. We will actively engage in the RBC discussions with the appropriate NAIC Working Group on this issue.

As it relates to the corresponding Blanks Working Group exposure 2024-19BWG, we have requested a re-exposure / deferral to address this item which was exposed for the first time. Our question to the Working Group is: should Ref #2023-28 also be re-exposed / deferred to align these 2 items?

Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts

During the NAIC Summer National Meeting, the Working Group exposed revisions to *SSAP No. 56—Separate Accounts,* as shown below as "2024 Summer National Meeting Exposed Revisions," to allow for initial review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general and book-value separate accounts. The Working Group also requested comments from regulators and industry on the noted questions, which are highlighted in grey in the exposure draft. This item was originally exposed with a longer comment period ending November 8, 2024, with the comment period extended to January 31, 2025. This item was not discussed in detail during the 2024 Fall National Meeting but is planned for discussion in the interim after that meeting, or during the 2025 Spring National Meeting.

Interested parties continue to support clarification of statutory accounting guidance for Book Value Guaranteed Separate Accounts. ACLI is very appreciative of the on-going dialogue with SAPWG and the IMR Ad Hoc Working Group and stands ready to continue working with the NAIC on this initiative.

ACLI would like to provide specific comments regarding existing SSAP 56 guidance and proposed changes to SSAP 56

The ACLI is in support of much of the exposed guidance updates. Particularly, we continue support for the proposed guidance for transfers between General Account and Separate Account (paragraphs 19 – 22). The ACLI previously provided a detailed presentation entitled "ACLI Derivative IMR Solution Proposal" ("ACLI Solution," included as Appendix I) to the IMR Ad Hoc Working Group. Discussions of the ACLI solution at the NAIC Ad Hoc IMR WG were the impetus for this exposure. The exposed guidance updates to SSAP 56 largely reflect the findings from the ACLI Solution presentation and, should it be beneficial to regulators, the ACLI would appreciate the opportunity to present to the full SAPWG membership and any additional interested regulators.

While in support of much of the exposed guidance updates, the ACLI would like to further discuss some of the proposed guidance for Book Value Guaranteed Separate Accounts:

Paragraph 22 requires that all other transfers of assets between Separate Account and General Account, excluding those assets sales for cash transfers already described in Paragraphs 19 through 21, be recorded at fair value. In order to avoid any potential for diversity in practice, we believe guidance should be added clarify that IMR should be utilized for these transactions in a similar way to how IMR is utilized in the transfer for cash transactions. The ACLI recommends at minimum the addition of the following phrase (change highlighted in red): "Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value with gains and losses offset to IMR similar to asset sales for cash guidelines as detailed in Paragraphs 20 & 21…". Should it be decided that more detailed instruction be required, the ACLI would like to request some additional time to build out a more detailed proposal.

Paragraph 24 identifies the in-scope Separate Account population as "*…separate accounts that would qualify for separate account classification under U.S. GAAP…".* We do not believe the direct reference to US GAAP regulation within the SSAP to be appropriate, especially as not all insurers perform U.S. GAAP filings and would not be sufficiently expert in U.S. GAAP Separate Account guidance. Language surrounding guaranteed separate accounts is already included in Paragraph 18. Rather than creating separate language to identify non-guaranteed separate accounts which do not require AVR, direct reference to a "population excluding that population identified in Paragraph 18 would both provide clarity without reference to U.S. GAAP guidance and provides inclusive language ensuring the entire population of separate accounts to fall in either bucket rather than risk any population that may not fall in either the U.S. GAAP standard or the Paragraph 18 standard.

Paragraphs 34.C.iii. and 39.F. appear to be seeking additional disclosure (within General Account and Separate Account filings, respectively) of the assets supporting book value separate accounts, as specific reference is made to product types identified as book value in Paragraph 18 (PRT and RILA), We believe this additional disclosure to be redundant to the Book Value column reporting in the Separate Account Asset Page, providing no additional detail or value to what has already been reported. While the ACLI recognizes that there is no prohibition of domicile approval of non-guaranteed book value separate account with Statutory guidance surrounding Plan/Memorandum of Operations process, we feel that proposed guidance within SSAP 56 Paragraph 25 eliminates that probability: "*Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts…".* Due to the Paragraph 25 requirement that all book value separate accounts shall be in support of guaranteed separate accounts where the insurer bears the risk of investment performance, it is not probable that the Book Value column breakout within the Separate Account Assets page filing will include any population other than the Guaranteed population and thus cannot not diverge from the disclosures proposed in Paragraphs 34.C.iii. and 39.F. The ACLI requests that these disclosure requirements be removed from SSAP 56.

Once again, the ACLI appreciates the opportunity to provide comment and looks forward to continued dialogue and collaboration on Book Value Separate Account guidance. If you have any questions regarding this letter, please do not hesitate to contact us.

Ref #2024-16: Repacks and Derivative Investments

On December 17, 2024, the Working Group exposed proposed annual statement instructions, as shown in the exposure draft under "December 2024 Proposed Revisions to Annual Statement Instructions" to

clarify that held debt securities that are sold to an SPV and then reacquired reflecting the addition of derivative or other components shall be reported as a disposal and reacquisition in the investment schedules. With this exposure, the Blanks (E) Working Group was requested to expose a blanks proposal sponsored by the Statutory Accounting Principles (E) Working Group at the 2024 Fall National Meeting.

Interested parties have no comments on this item.

Ref #2024-20: Restricted Asset Clarification

On November 17, 2024, the Working Group moved this item to the active listing categorized as a SAP clarification and exposed revisions illustrated in the recommended changes to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement instructions/template for the restricted asset disclosure in Note 5L to specify how Modco and FWH assets reported within a ceding company's financial statements shall be reported. The exposed revisions also include a new disclosure to identify whether Modco/FHW assets are pledged by the ceding entity as well as expanded disclosures to detail differences between what is reported in the restricted asset note and what is in the general interrogatories.

Interested parties appreciate the opportunity to comment on this item after it was re-exposed for comment by the Working Group during the NAIC Fall National Meeting in Denver.

We have split our comments below based on the section of instructions they refer to, following feedback comments related to the overall exposure.

General Feedback

Interested parties note that the instructions for SSAP No. 1, Note 5L, General Interrogatories (GI), and Risk Based Capital (RBC) do not indicate which values should be used for each of the disclosures (i.e., Book Adjusted Carrying Value (BACV), collateral amount, Fair Value). As such, we recommend that BACV be used for all disclosures to ensure consistency.

For example, in Note 5L, columns 8 & 9, Total Admitted/Nonadmitted Assets are reported using BACV, as the assets would appear in the Assets page under the Admitted and Nonadmitted Assets columns. In lines b and c, *Collateral held under security lending agreements* and *Subject to repurchase agreements*, may be reported as collateral amounts to match the General Interrogatory (GI). Combining BACV and collateral amounts could be misleading to the reader.

Interested parties recommend that changes to the *NAIC Accounting Practices and Procedures Manual* (AP&P manual) be made concurrent with any Blanks and RBC instruction updates to ensure that all reporting is consistent.

SSAP No. 1

We have no comment on the changes in SSAP No. 1 – *Accounting Policies, Risks & Uncertainties and Other Disclosures* other than the clarification of expected reporting values.

Notes to the Financial Statements - 5L

5L(1)

- Interested parties note that instructions are not included for the new columns and rows or the newly required reconciliation. Therefore, we recommend instructions be added to the Restricted Assets section.
- We note that this section still has line o titled: *Total restricted assets,* but the new chart shows that the total is now line r. We recommend instructions be updated with the new line titles.
- We note that changes to SSAP No. 1's requirements would also require Note 5L be updated for Health and Property & Casualty companies, which have slightly different formats than Life.

Illustrations to the Financial Statements - 5L

5L(1)

- The exposure should clarify what happens if assets are pledged and may show up as restricted assets in another row.
- Interested parties recommend the removal of the reference to SSAP No. 1 Paragraph 23.c from the Restricted Assets Category in lines o-q.
- We would like to confirm that line o should exclude collateral received from security lending and repurchase agreements as these items are already included in lines b-f. We recommend clarification language to call out the exclusions.

5L(2)

- Question: Is the amount of total assets pledged under derivative contracts supposed to be on the new line (*Amount of Total pledged under derivative contracts*) and not included above the current line "Total (c)"? If so, why would we need to remove that line from the new total line?
- We recommend that the new Total Excluding Derivatives include a formula showing it is Total (c) less Amt of total pledged under derivative contracts.
- We recommend Staff Note be included as a subnote to the table or included in the Note 5L instructions.
    - ✓ **Note: The amount of pledged under derivative contracts should agree to Schedule DB and agree to what is subtracted from the life RBC formula.**

5L(4)

- Interested parties would like clarification if the new Collateral/Modco/FWH Columns are independent of each other or are Modco/FWH subsets of the collateral amount.
- We note that the subnotes for Columns 3 and 4 were not updated and still state the formula is column 1 / Asset page. Column 1 refers to all data for BACV. The columns will need to be renumbered (i.e., 1.1 Collateral; 1.2 Modco; 1.3 FWH) and/or the subnotes for j and t would be updated.
- We note that row j currently should be column total lines, but the headers for the Separate Account (SA) section were added to the total line instead of a new row. We recommend a new line be added for the SA section headers. Line t should be numerical values rather than column headers.

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- We would like to confirm that the "Recognized Obligation for Modco/FWH Assets" required in 5L(4)u and v are equal to the Modco/FWH reserve liabilities. If so, the language should be updated to read as such.

5L(4) – The second one should be renumbered to 5L(5)

- The exposure should clarify that this table applies only when the economic benefits received from pledging the asset stay with the cedant. Stated differently, if the benefit or cost associated with the restriction inures to the reinsurer, that would not be considered "purpose specific to the ceding insurance reporting entity." We recommend a principle be developed to apply the intended rules to a wide array of transactions.

Life RBC (E) Working Group Referral

Interested parties propose the following changes be made to the referral to the Life RBC (E) Working Group.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. **In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of ~~by~~ the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then ~~the reporting entity cannot assert that they have transferred the asset risk or variability~~ ~~and~~ RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.**

Ref #2024-21: Investment Subsidiaries

On November 17, 2024, the Working Group moved this item to the active listing and exposed this concept agenda item requesting comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries.

As background, investment subsidiaries are often used by insurers as operationally efficient investment vehicles and also may be used for various legal reasons (e.g., reinsurance transactions). Using a separate legal entity to own certain types of investments may be a lot more efficient than having the insurer own the assets outright. For example, insurers may use an investment subsidiary to own residential mortgage

loans. This asset type usually requires the issuance of a high volume of loans to achieve the appropriate economies of scale so that the investment is cost-effective. Insurers may create a separate legal entity to allow for licensing to purchase loans in every state and that will engage a mortgage loan servicer to administer and service all the loans. Additionally, when insurers establish an investment subsidiary in the form of a trust with a national bank as trustee, the national bank trustee is either explicitly exempted from state lending licensing requirements or entitled to federal preemption from state lending license requirements. Using an investment subsidiary in this case would allow the insurance company to invest in large volumes of residential mortgages without significant burden on internal resources and internal operations while holding a capital charge on the underlying mortgages that is commensurate with the risk of each underlying mortgage loan.

With the background above, following are our comments to the potential actions included in the exposure draft.

1. **Proposal No. 1: Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries)**

   Interested parties agree with including guidance in SSAP No. 97 to address the following items:
   a. The definition of an investment subsidiary from Schedule D should be brought over into SSAP No. 97.
   b. Interested parties agree that clarification should be added on the accounting for these investments. We understand that these investments are to be reported using an equity method of accounting with U.S. GAAP audited financial statements required for admissibility. There is a current lack of clarity on how to apply the "imputed value" requirement in the investment subsidiary definition. There is inconsistency in practice as to whether the underlying investments are adjusted from a U.S. GAAP value to a U.S. SAP value in instances where U.S. GAAP and U.S. SAP differ from an investment valuation perspective. If the intent is for the investment subsidiary's assets to be recorded with a carrying value equal to what would be recorded if the assets were held directly by the insurer, more clear guidance should be included in SSAP No. 97 as to how this rule is intended to be applied.

   c. There should be clarification that in no instance the RBC charges applied to the underlying assets can be more beneficial than if the assets were held directly by the insurer. This should address the Working Group's concern regarding investment subsidiaries that own bonds that do not meet the new principles-based definition and would require an SVO designation for reporting. Interested parties also request clarification in the RBC instructions that the applicable charges be applied to the accounting basis used to determine the carrying value of the investment subsidiary.

2. **Proposal No. 2: Sponsor Blanks proposals to capture new investment Schedules or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary**

   Interested parties believe that having to include a listing of each underlying asset of the investment subsidiary will take away some of the operational efficiency that is gained by having

the investment subsidiary own the underlying assets. If this is a "must have" for the Working Group, perhaps we can work together on the most efficient way to provide the data. See additional suggestions under item 3 below.

3. **Proposal No. 3: Referrals to Capital the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries**

   Interested parties agree with providing transparency for RBC purposes. Since listing each asset individually may take away some of the benefits of creating an investment subsidiary, perhaps the assets can be provided by groupings that match AVR/RBC schedules similar to the industry's recent response on the funds withheld assets exposure. Another option may be to include detail in a note to the financial statement that would be less onerous than including it in the actual Investment schedules.

In addition to providing responses above to the specific actions detailed in the Exposure Draft, interested parties would like to provide additional comments as follows:

1. We understand from the exposure draft that the concept of an investment subsidiary is intended to be limited to Schedule D common stock and preferred stock investments. However, it is not clear to us why the concept cannot be extended to investments in subsidiaries that are legally structured as limited partnerships (LPs) or limited liability companies (LLC). The legal form of the entity should not impact whether a subsidiary meets the criteria for investment subsidiary reporting as the accounting and reporting would follow substance over form. In fact, we understand that insurance law in some states already allows the concept of an investment subsidiary to be applied to any legal entity. For example, state statutes modeled on the NAIC Holding Company System Regulatory Act refer to investment subsidiaries as "entities organized as corporations, partnerships, associations, joint stock companies, trusts, unincorporated organizations that are engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer." We understand that this would require some changes to Schedule BA to add a specific line item for investment subsidiaries, which will require additional work and new AVR/RBC mapping. Another option could be to require all investment subsidiaries, regardless of legal form, to be reported on Schedule D.

2. There are entities that are not legally structured as either a corporation or LP/LLC. However, the equity they issue is more akin to a common stock investment in a corporation than it is to an equity interest in an LP/LLC. This is the case for Delaware statutory trusts (DSTs). From a legal perspective, equity investments in these types of entities are treated similarly to common stock as investors in both DSTs and corporations have limited liability. Unlike LPs/LLCs, DSTs do not maintain separate capital accounts for each investor since the ownership interest is usually represented by shares/beneficial interests similar to ownership of equity in a corporation. Any new guidance added to SSAP No. 97 should allow for the reporting entity's assessment of whether the equity investment in the investment subsidiary is more akin to common stock (Schedule D reporting) or more akin to LP/LLC interests (Schedule BA reporting). Each reporting entity needs to assess individual facts and

circumstances for each investment vehicle to determine guidance applicability and the appropriate schedule in which to report the investment subsidiary.

3. Some trusts are established to hold assets such as mortgage loans that allow for direct reporting on Schedule B. We understand that this is done by including legal language in the trust certificates that specifically state that ownership in the trust represents a participation in each mortgage loan owned by the Trust. In these instances, the insurer has an undivided interest in each mortgage loan and it has the same rights as the lender of record with all proceeds from the loans as well as foreclosure rights being pari-passu with the lender of record. We believe that since ownership in the trust in this instance represents a participation in each loan as defined in SSAP No. 37, these loans are Schedule B eligible assets and are outside of the scope of the investment subsidiary guidance.

Ref #2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards

On November 17, 2024, the Working Group moved this item to the active listing and exposed revisions, as shown in the exposure draft, to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*.

Interested parties have no comments on this item.

Ref #2024-23: Derivative Premium Clarifications

On November 17, 2024, the Group moved this item to the active listing, categorized as a SAP clarification, and exposed this agenda item proposing revisions to *SSAP No. 86—Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premiums and to further clarify that derivative premium costs shall not be recognized as a realized gain/loss.

After discussion with NAIC staff, interested parties suggest that the Ref #2024-23: Derivative Premium clarification be captured in the discussion of Ref #2024-15: ALM Derivatives.

Ref #2024-24: Medicare Part D - Medicare Prescription Payment Programs

On November 17, 2024, the Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* as well as minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, as described above. The Working Group directed notice of the exposures to the Health Insurance (B) Committee and Health Risk-Based Capital (E) Working Group. In addition, NAIC staff were directed to coordinate on the annual statement blanks proposals and to develop disclosures for future discussion.

Interested parties support the comment letter submitted by AHIP and BCBSA.

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Ref #2024-25: SSAP No. 16 Clarifications

On November 17, 2024, the Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC).

Interested parties agree with the updated references in this item.

Ref #2024-27: Issue Papers in the Statutory Hierarchy

On December 17, 2024, the Working Group moved this item to the active listing as a SAP clarification and exposed revisions, as shown in the exposure draft, to classify issue papers in Level 5 of the statutory hierarchy.

Interested parties raised the issue of the placement of Issue Papers in the statutory hierarchy in our previous comment letter of September 27, 2024, where we suggested that Issue Papers be recognized as authoritative guidance and included in either Level 2, or alternatively Level 4, in the statutory hierarchy of authoritative guidance. Because Issues Papers frequently have more accounting guidance rather than reporting guidance, we suggested first Level 2 as this would place issue papers higher in the hierarchy than the annual statement instructions (Level 3) which is arguably more appropriate.

Level 4 specifically includes the preamble as authoritative guidance and paragraph 45 of the preamble states, "While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive." This part of the preamble puts the guidance in an SSAP above the guidance in an Issue Paper if a difference exists between the two, which we agree is appropriate. However, there are instances where there is no guidance in an SSAP and the underlying Issue Paper has either a detailed discussion or specific guidance that is on point for an accounting issue that a preparer or auditor is researching. As mentioned in our prior comment letter, examples include feeder funds related to the new principles-based bond definition (PBBD) and superseded US GAAP OTTI impairment guidance that is still applicable for statutory accounting but is not codified within the SSAPs).

The current exposure draft recommends that Issue Papers be included in Level 5 of the statutory hierarchy as "nonauthoritative guidance" which includes "Accounting textbooks, handbooks and articles." We believe this is inappropriate as the guidance in Issue Papers is the result of the deliberative process used by the Working Group and the Accounting Practices and Procedures Task Force to identify appropriate statutory accounting guidance and practices, expose draft guidance for comment, receive public comment, and deliberate a final Issue Paper that is and should be maintained as part of the process for developing authoritative statutory accounting practices and procedures. In short, the Issue Papers are the product of an iterative, open process that become part of the documented discussion of statutory accounting guidance by the Working Group, industry, and others. We believe this should result in Issue Papers being placed in Level 4.

Ref #2024-28: Holders of Capital Notes

This agenda item has been prepared in response to the direction of the Working Group during the 2024 Fall National Meeting with the adoption of INT 24-01: Principles-Based Bond Definition

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Implementation Questions and Answers. With the adoption of the INT, and the guidance for reporting certain debt securities as capital notes in scope of SSAP No. 41—Surplus Notes, industry identified that slight revisions may be necessary to reflect the capital note distinctions. The Working Group directed NAIC staff to work with industry in this review and identifying necessary changes.

From the initial review and working with industry, revisions have been proposed to address the following specifically for capital notes:

1. Incorporate a definition/reference to the INT for capital notes.

2. Clarify the admittance restrictions.

3. Clarify the guidance for NAIC designations.

4. Update the impairment guidance to refer to capital notes.

In addition to these items, it was identified that an existing disclosure for surplus notes, which requires disclosure of any holder of 10% or more of an SEC-registered surplus note, is likely an extensive administrative burden, may be difficult to complete, and as a narrative disclosure only (not data-captured), is likely not often utilized. From a review of the disclosure, it predates the issuance of SSAP No. 41—Surplus Notes, and there are questions as to how a disclosure of certain holders of SEC-registered notes would be purposeful or used. NAIC staff has proposed to eliminate this aspect of the disclosure but retain the disclosure focusing on surplus notes with affiliates. NAIC staff requests feedback on whether this disclosure should be retained. Interested parties reviewed this exposure and have the following comments.

Interested parties appreciate the attempted clarification in the exposure regarding paragraph 9a as this paragraph was a point of confusion during interested parties' pre-exposure review of SSAP No. 41. Even with the proposed changes, there is still confusion surrounding this paragraph. More specifically, do the state law admission limits discussed pertain to ownership related to an individual company, affiliates, an aggregate equity limit or something else? As noted in the NAIC Staff Note, it is not generally characteristic of the SSAPs to detail provisions used in state limitations. As a result, absent further clarification and/or a compelling rationale from regulators as to the purpose of having such guidance in SSAP No. 41, interested parties would support the deletion of this paragraph if determined appropriate by regulators in response to the question asked of them in the NAIC Staff Note.

Interested parties are also supportive of the proposed changes to paragraph 21 as not only is this language likely not purposeful or used but it also not readily obtainable for issuers if at all. Relatedly, the disclosure in paragraph 18c includes the following to be disclosed for as long as the surplus notes are outstanding:

> *Holder of the note, or if public, the names of the underwriter and trustee, with the identification on whether the holder of the surplus note is a related party per SSAP No. 25 – Affiliates and Other related Parties.*

Interested parties believe this disclosure can also be deleted as: 1) the holder of the note, is duplicative of the proposed deletion in paragraph 21, is likely not purposeful or used and not readily obtainable 2)

the names of the underwriter and trustee are likely not purposeful or used, and 3) any surplus note for which the holder is a related party would appear to be captured in paragraph 21 which is not being deleted. If a distinction is being made between related party and affiliate, maybe that could be clarified within paragraph 21 and thus allow the deletion of paragraph 18c.

Interested parties do not believe it is appropriate for capital notes to be nonadmitted in the event the regulatory authority halts principal or interest payments as suggested in paragraph 9b. Mechanisms already exist to appropriately reduce capital such as the carrying value of NAIC designations of 3 through 6 capital notes are reported as the lesser of amortized cost or fair value in paragraph 11 and proposed impairment guidance in paragraph 16 recording an impairment down to fair value.

A wide range of scenarios may exist in regard to regulator authority cancelling coupons and/or writing off par value. Typically, a cancellation of a coupon would cause a down grade and likely an impairment decision. Carrying the capital note at fair value (which is generally readily available in the market) is more suitable than non-admitting the remaining fair value of a capital note. During 2009, several bank issuers agreed with their EU regulators on cancelling coupons for 24 months. If held, many of these hybrid securities recovered and ultimately were called by the issuer at par value. Further, nonadmitting an asset that may have a significant fair value would work to incentivize companies to sell at depressed prices, ultimately hurting policyholders, rather than holding the capital note for a potential recovery.

* * * *

Thank you for the opportunity to comment on the above items. Please feel free to contact either one of us if you have any questions or would like to discuss further.
Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1a9-comments/dkb2427-2.1.25.docx

January 31, 2025

Mr. Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group National
Association of Insurance Commissioners

Sent via e-mail to NAIC staff cc'd below

Re: 2024-24, Medicare Prescription Payment Plan

Dear Mr. Bruggeman:

AHIP and the Blue Cross and Blue Shield Association (BCBSA) (jointly, the Trades) are pleased to respond to the Statutory Accounting Principles (E) Working Group's (SAPWG) proposed exposure 2024-24 regarding the Medicare Prescription Payment Plan (MPPP) ("the exposure").

The Trades (1) appreciate SAPWG's on-going engagement on the exposure, (2) support the proposed conclusions in INT 24-02, and (3) believe that INT 24-02, if adopted by SAPWG, will be useful in enhancing consistency and providing meaningful interpretive guidance to Medicare prescription drug plan sponsors (Part D plan sponsors) and state insurance regulators alike.

In an earlier issue paper, the Trades brought forward certain statutory accounting-related issues about MPPP to SAPWG's attention:

- Since MPPP is new, it is not currently mentioned in the NAIC's Accounting Practices and Procedures Manual ("Manual"); thus, there is no current statutory accounting guidance to indicate whether recoverables from Part D plan enrollees who elect to participate in MPPP (MPPP participants) are admitted assets in the statutory financial statements of Part D plan sponsors.
- As described in the Trade's issue paper, recoverables from MPPP participants are distinctly different in their nature from other health care receivables for which guidance currently exists in the Manual; additional guidance should be developed for the Manual to clarify how impairments of recoverables from MPPP participants should be reported, i.e., to what expense category.

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The above-referenced exposure includes a proposed new Interpretation (INT 24-02) of SAPWG, which, if adopted, would address the above issues by providing the following guidance:

- Current MPPP recoverables, meaning those that are less than and up to 90 days overdue, are admitted assets to the extent that they comply with the guidance in this interpretation. Repayment by MPPP participants represents a probable future economic benefit to the Part D plan sponsor resulting from past transactions or events (i.e., paying the MPPP participants' out-of-pocket costs to the pharmacy). MPPP recoverables are also subject to impairment analysis.
- Uncollected MPPP recoverables more than 90 days overdue are nonadmitted. The due date for aging of the MPPP recoverables shall follow the program billing guidelines.
- Uncollected MPPP recoverables from MPPP participants are subject to impairment analysis which shall be assessed using the evaluation guidelines in SSAP No. 5—*Liabilities, Contingencies, and Impairment of Assets*. However, when impairments for uncollectible MPPP recoverables are recorded, the expense for the impairment shall be reflected in as incurred Medicare Part D prescription drug claims in the statutory income statement.

The Trades concur with those conclusions expressed in proposed INT 24-02.

The Trades have some suggestions to clarify wording in the document.

- Many of the Trades' proposed revisions to the text are self-explanatory or intended to enhance the consistency of terminology throughout the document. Please refer to the Trades' suggested mark-ups in the attached document.
- Where the Trades believe suggested text revisions may not be self-explanatory or warrant more attention, the Trades have flagged that language via text that is highlighted in yellow in the attached document and provided a brief explanation below.

Finally, the Trades note that SAPWG also exposed changes to INT 05-05, for which the Trades have no comments.

INT 24-02T: Medicare Prescription Payment Plan

As a general comment, the Trades have suggested changes to some of the terminology in the proposed INT 24-02 to more closely track usage in CMS rules. That is not because CMS rules are authoritative as regards statutory accounting used by state insurance regulators, rather it simply recognizes that Part D plan sponsors and regulators alike may refer to CMS

published materials to understand the context of MPPP, and to the extent the terminology in INT 24-02 tracks CMS terminology, it would facilitate that process. For example, in the issue paper that the Trades submitted to SAPWG last Fall, the term "MP3" was used; in this letter and in our comments on the proposed INT 24-02, we have changed that to MPPP to more clearly track the context as described in CMS' rules and published materials.

- ***Use of "program" or "plan" terminology:*** In a sense, either term could apply to Medicare as a whole, to Part D as a part of Medicare, or to MPPP as a part of Part D. The Trades believe it would be helpful to adhere to specific terms that are unique to each to make the proposed guidance as clear as possible. In the attached mark-up of INT 24-02, the Trades have suggested to use "Medicare" when referring to Medicare as a whole; to use "Part D" when referring to the Prescription Drug component within Medicare; and to use "MPPP" when referring to the new feature of Part D that is the subject of INT 24-02, i.e., the Medicare Prescription Payment Plan. Where the word "plan" applies to "Medicare prescription drug plans," or to "Medicare Advantage plans", "Part D plan sponsors," or "plan year," those terms are spelled out without use of a shortened reference such as "plan." Note that only a few instances where such revisions were made in the mark-up document are highlighted in yellow (to provide examples), but the Trades suggest that corresponding changes be made throughout the document where the respective terms appear whether highlighted or not.

- ***Use of "member" or "enrollee" terminology:*** Likewise, the use of terms such as "member" or "enrollee" can be interpreted to be someone who has coverage with a Part D plan sponsor, or more specifically be interpreted to be those with such coverage and who also have elected to take advantage of MPPP within Part D. In the attached mark-up of INT 24-02, the Trades suggest using "Part D Enrollee" to refer to an individual who has coverage with a Part D plan sponsor, and "MPPP participant" to apply more specifically to those Part D plan members who have elected to participate in the MPPP program in order to have their out-of-pocket payments apportioned over the remaining months of the plan year as per the pertinent provisions of MPPP. Note that only a few instances where such revisions were made in the mark-up document are highlighted in yellow (to provide examples), but the Trades suggest that corresponding changes be made throughout the document where the respective terms appear whether highlighted or not.

- ***Clarifying Paragraph:*** In paragraph 10 of the mark-up of INT 24-02, the Trades have added a paragraph to provide a conclusion to the section that refers to various CMS

rules that prohibit or limit many of the common methods Part D plan sponsors might otherwise use to mitigate losses from uncollectible MPPP balances. That conclusion statement is necessary to clarify that MPPP presents an underwriting risk to Part D plan sponsors which cannot be addressed through administrative means, rather through underwriting activities. This is an important point in considering where MPPP-related impairment losses should be reported for statutory accounting – to bad debt (administrative expense) or to claims expense.

- ***Medical Loss Ratio.*** In the section on "Medical Loss Ratio", clarification is provided to recognize that CMS guidance does not dictate statutory accounting guidance promulgated by the NAIC and its member state insurance regulators. The mark-up also clarifies that it is losses (not outstanding balances) related to impairments of MPPP-related balances that are considered by CMS as administrative expenses and excluded from the MLR. The mark-up also clarifies that it is the additional premium revenue that is attributable to the estimates of impairments of recoverables from MPPP participants (not the recoverable balance) included in premium bids by Part D plan sponsors that is included in the MLR denominator.

SAPWG Maintenance Agenda Submission Form, Form A

The Trades understanding is that the Form A serves to facilitate discussion at SAPWG, but it is the proposed INT 24-02 that, if adopted by SAPWG, will be the authoritative interpretive guidance on statutory accounting for MPPP. Therefore, the Trades do not have formal comments on the Form A to submit to SAPWG. That said, the Trades note the following with respect to the Form A.

- The Form A describes CMS' requirements as to how Part D plan sponsors should address MPPP-related losses in their MLR filings with CMS but does not mention the proposed statutory accounting treatment which is the purpose of INT 24-02 – to provide guidance as to the admissibility of MPPP-related balances and the expense category to which MPPP-related impairments should be reported. Presumably, this discussion of MLR requirements is provided for context, but as SAPWG discussions continue, we expect that the focus of the Form A will appropriately shift from context (MLR) to the area of focus (statutory accounting). While the MLR discussion might provide some context, it also may cause confusion when referenced in a discussion about statutory accounting. That is because MLR is a separate subject with separate considerations from statutory accounting used by state-regulated health plans.

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The Trades thank you for this opportunity to provide our comments on SAPWG's exposure 2024-24 and would be pleased to address any questions you or other SAPWG members may have.

Sincerely,



Clay S. McClure
BCBSA, Executive Director State Affairs



Miranda Motter
AHIP, Senior Vice President, State Affairs and Policy

Cc to NAIC staff:

Julie Gann
Robin Marcotte
Jake Stultz
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https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1a9-comments/naic mppp ahip-bcbsa comments.docx

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 24-02T: Medicare ~~Part D~~ Prescription Payment ~~Plans~~Plan

INT 24-02T Dates Discussed

November 17, 2024

INT 24-02T References

Current:

- *SSAP No. 47—Uninsured Plans*
- *SSAP No. 54—Individual and Group Accident and Health Contracts*
- *SSAP No. 66—Retrospectively Rated Contracts*
- *SSAP No. 84—Health Care and Government Insured Plan Receivables*
- *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*

INT 24-024T Issue

1. The Inflation Reduction Act of 2022 introduced changes to Medicare Part D, ~~which is~~ the voluntary, outpatient prescription drug ~~program (~~benefit under Medicare. Among other changes, Part D~~), including a new program~~ sponsors are required to ~~help~~offer their Part D enrollees ~~manage~~the option to pay their ~~prescription~~out-of-pocket Part D drug costs through monthly payments~~.~~ over the course of the plan year instead of at the pharmacy counter. This program, known as the Medicare Prescription Payment Plan (~~MP3), will become~~MPPP), became effective on January 1, 2025.

~~1.~~2. The purpose of this interpretation is to provide statutory accounting and reporting guidance for relevant aspects of the ~~MP3 program~~MPPP. This interpretation specifically addresses the ~~MP3~~MPPP components ~~of Medicare Part D~~ (MPPP-related receivables and impairment of such balances) of Medicare Part D that prompted a need for such interpretive guidance. However, this interpretation does not intend to alter the guidance in *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, which offers high-level accounting guidance on the current Medicare Part D program~~.~~; other than its potential impact on the *amount* of revenues, MPPP does not alter the *nature* of any revenues under the Part D program and thus there is no need to amend the existing statutory accounting guidance for such revenue in *INT 05-05*.

~~MP3~~MPPP Program Overview

1. ~~MP3 is a new program~~Under the MPPP, which launched January 1, 2025, all insurers that ~~requires all~~offer Medicare prescription drug plans (Part D ~~plans~~plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, are required to offer ~~its members~~enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

~~2.~~3. Part D plan ~~members~~enrollees who elect to participate in ~~MP3 (MP3 enrollees~~MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. ~~The~~Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an ~~enrollee's~~MPPP participant's applicable out-of-pocket amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the ~~MP3 enrollee~~MPPP participant monthly for any cost-sharing incurred while enrolled in ~~MP3~~MPPP.

~~3.~~4. ~~MP3 enrollees will~~ Participation in the MPPP does not save program participants money ~~on the total out-of-pocket~~ or otherwise lower their Part D drug costs ~~of prescription drug purchases~~ for which they are responsible (there are other ~~Part D~~ programs in place to help qualifying Part D plan ~~members~~enrollees with affordability issues). ~~MP3~~MPPP simply spreads the MPPP participants' out-of-pocket Part D costs into monthly payments over the remaining term of the plan year which may help ~~many~~some Part D plan ~~members~~enrollees to better manage their monthly cash flow.

~~4.~~5. Unlike some other existing aspects of Part D ~~programs~~, which involve funds due from the federal government ~~(~~for which payment is effectively assured~~), MP3 installment recoverables~~ , MPPP balances are due from individual ~~enrollees. Consequently, Part D plans may pay pharmacies for MP3 enrollees' out-of-pocket pharmacy claim costs, but some amounts billed~~ MPPP participants and there is the risk to the ~~enrollee~~ Part D plan sponsor that a portion of such balances might ultimately be determined to be uncollectible. ~~Reasons for the amount being uncollectable~~That could ~~include leaving enrollment in the Part D plan or an inability or unwillingness to~~ occur when an MPPP participant, for whatever reason, does not pay the full outstanding balance~~.~~ after the required grace period. This raises statutory accounting concerns ~~regarding~~ as to whether balances due from MPPP participants are admitted assets, the potential nonadmittance of overdue amounts, and how impairment of such ~~recoverables.~~unpaid outstanding balances would be reported when determined to be uncollectible

~~5.~~6. To help cover potential ~~uncollectible balances~~impairments of recoverables from MPPP participants, the Centers for Medicare and Medicaid Services (CMS) allows Part D plan sponsors to include an ~~MP3 loss~~ estimate for such MPPP-related losses in their ~~premium~~plan bids. However, and especially for the initial ~~years~~year, Part D plan sponsors ~~have no~~lack directly relevant prior experience to estimate the extent to which balances due from MPPP participants will become impaired, nor does CMS provide specific assumptions that Part D plan sponsors should use in ~~estimating the MP3 program's potential expenses~~making such estimates for inclusion in premium bids.

~~6.~~7. The government is responsible for the estimated ~~MP3~~MPPP losses to the extent they are included in ~~premium~~plan bids by Part D plan sponsors. Part D plan sponsors thus receive additional revenue, which helps to cover uncollectible/impaired balances ~~resulting from MP3 enrollees.~~of MPPP participants. However, Part D plan sponsors nonetheless face pricing/underwriting risk relating to the prescription needs of enrollees and may inaccurately estimate the amounts of uncollectible ~~losses in the premium bids.~~/impaired balances to include in plan bids, particularly in the initial years of MPPP while further experience is gained. In addition, there are risks that the costs of uncollectible/impaired amounts and other aspects of implementing ~~the payment plan~~MPPP will vary from amounts that had been factored into ~~premium rates.~~plan bids. According to CMS guidance any losses in excess of the loss estimates included in ~~the premium~~plan bids are the responsibility of the Part D plan sponsor; thus, the Part D plan sponsor bears a new element of pricing /underwriting risk that arises with MPPP.

~~MP3~~MPPP Program Requirements for Unpaid Balances

~~7.~~8. ~~The MP3 Program requires~~Under the MPPP, Part D plan sponsors are obligated to take on the risk for a portion of uncollectible balances. The program rules prohibit or limit many of the common methods ~~used~~Part D plan sponsors might otherwise use to mitigate loss from uncollectible ~~MP3 balances. MP3 is a mandated program benefit imposed by federal law and CMS rules, with different implications for statutory accounting purposes. Other key program requirements for MP3 balances~~ MPPP balances. Examples of such prohibitions or limitations include the following:

~~8.~~9. **Late Fees, Etc. –** Under ~~MP3~~MPPP, late fees, interest payments, or other fees, such as for different payment mechanisms, are not allowed.

~~9.~~10. **Billing and Payment Procedures** – Part D plan sponsors can design their own billing and payment procedures for ~~MP3~~MPPP. However, they must prioritize payments towards Part D plan premiums to avoid an enrollee losing their Part D coverage. This rule applies when it is unclear if an enrollee

intended a submitted payment to cover their outstanding Part D plan premium or their ~~MP3~~MPPP balance.

~~10.~~11. **Pharmacies Not Responsible for Balances –** Participation in ~~MP3~~MPPP is considered an arrangement between the Part D plan sponsor and the ~~MP3 enrollee.~~MPPP participant. Pharmacies are not responsible for ~~an enrollee's unsettled~~losses attributed to impairment of MPPP participants' balances or for collecting unpaid balances from the ~~MP3 enrollee~~MPPP participant on the Part D plan sponsor's behalf.

~~11.~~12. **Termination of Participation –** A Part D plan sponsor must terminate an enrollee's participation in ~~MP3~~MPPP if the enrollee fails to pay their monthly billed amount. An ~~MP3 enrollee~~MPPP participant will be considered to have failed to pay their monthly billed amount only after ~~the~~a required grace period of at least two months. ~~The~~However, the Part D plan sponsor cannot terminate ~~the enrollee's membership in~~an enrollee from the Part D plan ~~for nonpayment of~~itself because the enrollee failed to fully repay their ~~MP3~~MPPP billed amounts. ~~Sponsors~~Part D plan sponsors must continue billing amounts owed under the program in monthly amounts up to the maximum monthly cap based on the statutory formula for the remaining duration of the plan year after an enrollee has been terminated.

~~12.~~13. **Reinstatement of Enrollees** - Part D plan sponsors must reinstate terminated ~~MP3 enrollees~~MPPP participants if the individual demonstrates good cause for failure to pay the program billed amount within the grace period and pays all overdue amounts billed.

~~13.~~14. **Preclusion from Subsequent Enrollment** - A Part D plan sponsor may prevent an individual from opting ~~in to~~into the ~~MP3~~MPPP program in a subsequent year if the individual owes an overdue balance to that Part D plan sponsor or to another Part D plan sponsor with the same ~~ultimate~~ parent~~.~~ organization. In other words, an individual who owes an overdue MPPP balance ~~under the program~~to a Part D plan sponsor cannot be barred from ~~MP3~~enrolling in MPPP in a subsequent year ~~by~~through a different Part D plan sponsor that does not have the same parent organization.

a. **Compliance with Federal and State Laws -** Part D plan sponsors (and any third parties that Part D plan sponsors contract) collecting unpaid balances related to the program must follow other applicable federal and state laws and requirements, including those related to other types of payment plans, credit reporting, and debt collection.

15. In essence, MPPP is a payment option that Part D plan sponsors must offer to enrollees; Part D plan sponsors are compensated by the government to the extent estimated MPPP-related losses from uncollected balances determined to be impaired are included in their plan bids; Part D plan sponsors are at risk for MPPP-related losses in excess of those estimates; and Part D plan sponsors are prohibited from using many other administrative means to mitigate such losses.

Medical Loss Ratio

~~14.~~16. Regarding the issue of how Part D plan sponsors should report MPPP-related losses in their statutory financial statement filings to state insurance regulators, a potential point of confusion is the requirement imposed by the Centers for Medicare and Medicaid Services ("CMS") that Part D plan sponsors treat any uncollected balances from MPPP participants determined to be impaired as part of their administrative costs for purposes of reporting their minimum medical loss ratio ("MLR") to CMS.

2. The current Public Health Act outlines how to calculate medical loss ratio (MLR) rebates, which are generally based on a comparison of incurred health claims and quality improvement activities to premium revenue,

considering various factors and adjustments. *SSAP No. 66—Retrospectively Rated Contracts* provides disclosures related to the MLR. While the CMS MLR requirements provide interesting context, statutory reporting requirements are separate and distinct and involve their own considerations.

~~15.~~17. According to the CMS guidance, the ~~outstanding~~losses related to impairments of MPPP-related balances owed by ~~MP3 enrollees~~MPPP participants are considered for MLR purposes as part of the Part D ~~plan's~~plan sponsor's administrative expenses. CMS guidance thus excludes ~~unsettled~~losses attributed to impaired MPPP balances from the numerator of the MLR calculation, aligning with CMS' treatment of other administrative expenses incurred by Part D sponsors. The CMS guidance states that ~~unsettled balances~~ the additional premium revenue that is attributable to the estimates of MPPP-related impairments included in plan bids by Part D plan sponsors are included in the MLR calculation denominator ~~and allows Part D sponsors to account for these balances as losses in their premium bids.~~. Including ~~enrollee losses~~such premium amounts in the denominator aligns with reporting the revenue estimated to offset these losses in the MLR denominator.

18. It is noted that CMS guidance related to MLR is distinct from, and is not authoritative with respect to, statutory accounting guidance promulgated by the NAIC and its member state insurance regulators. While SAP is largely consistent with MLR reporting currently, there are some differences. This Interpretation is intended, in part, to clarify statutory accounting for MPPP-related losses and for clarity, will explain whether such treatment will or won't align with CMS guidance for the MLR.

Drafting Note: The ~~MP3 program~~MPPP considers uncollectible ~~MP3~~ recoverables from MPPP enrollees as incurred plan administrative costs and does not include these amounts in the MLR numerator, so reporting guidance for other adjustments to the Supplemental Health Care Exhibit will be needed. Such reporting revisions are not addressed in this interpretation but would be anticipated to be in the annual statement reporting revisions submitted to the Blanks (E) Working Group.

INT 24-02T Discussion

Statutory Accounting and Reporting Considerations for ~~MP3~~MPPP

~~16.~~19. The Working Group reached the following tentative consensus for ~~MP3~~MPPP statutory accounting and reporting guidance. In addition, Appendix 1 illustrates some basic journal entries which help to show the intended financial statement results.

~~MP3~~ Recoverables from MPPP Participants

~~17.~~20. ~~MP3 recoverables~~Recoverables from ~~enrollees~~MPPP participants shall be accrued and reported ~~on~~as an asset on line 24, *Health care and other amounts receivable*, when the related ~~pharmacy~~ payment is made by the Part D plan sponsor to the pharmacy for the out-of-pocket ~~payment is~~costs incurred on behalf of the MPPP participant.

~~18.~~21. Current ~~MP3~~ recoverables from MPPP participants, meaning those that are less than and up to 90 days overdue, are admitted assets to the extent that they comply with the guidance in this interpretation. Repayment by ~~MP3 enrollees~~MPPP participants represents a probable future economic benefit to the Part D plan sponsor resulting from past transactions or events (i.e., paying the ~~MP3 enrollee's~~MPPP participant's out-of-pocket costs to the pharmacy). ~~MP3~~ recoverables from MPPP participants are also subject to impairment analysis.

~~19.~~22. Uncollected ~~MP3~~ recoverables from MPPP participants more than 90 days overdue are nonadmitted. The due date for aging of ~~the MP3~~such recoverables shall follow the program billing guidelines.

~~20.~~23. If ~~an MP3~~a recoverable from an MPPP participant is fully collected, it will equal the corresponding out-of-pocket payment for pharmaceutical claim payment. In those cases, there will not be an income statement impact regarding claims (or claims adjusting expenses) if the ~~MP3~~MPPP recoverable is fully collected.

Impairments

~~21.~~24. Uncollected ~~MP3~~ recoverables from ~~enrollees~~MPPP participants are subject to impairment analysis which shall be assessed using the evaluation guidelines in *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets.* However, when impairments for uncollectible ~~MP3~~ recoverables from MPPP participants are recorded, the expense for the impairment shall be reflected in as incurred Medicare Part D prescription drug claims in the statutory income statement.

Out-of-Pocket ~~MP3~~MPPP Pharmacy Payments

~~22.~~25. When the Part D plan sponsor pays out-of-pocket drug claims to the pharmacy, a claims expense, a contra claims expense, and a contra claims expense account recoverable ~~are~~may be recorded. The contra claims expense, or similar mechanism, ~~is~~could be recorded to prevent initial claims expense recognition in the income statement so there is zero initial impact to the income statement. This is because there is an amount recoverable from the ~~enrollee~~MPPP participant, and to the extent that the ~~enrollee~~MPPP participant pays in full, there should not be any claims recognition. This is analogous to the handling of anticipated pharmaceutical rebates or anticipated subrogation recoveries.

~~23.~~26. If the ~~enrollee~~MPPP participant pays the amount due in full, there will be no income statement impact in claims expenses resulting from the ~~MP3~~Part D plan sponsor's payment of the MPPP participant's out-of-pocket costs to the pharmacy ~~payment and~~which would thus have been offset by subsequent ~~enrollee~~monthly payments~~.~~ by the MPPP participant to the Part D plan sponsor. In such cases, the ~~MP3~~MPPP recoverable will be reduced as payments are collected and there would be no income statement impact.

~~24.~~27. If the ~~enrollee recoverable~~MPPP participant's balance is not repaid in whole or in part, there will be an income statement impact to reflect paid claims ~~for~~to the ~~amount~~extent of the ~~MP3 recoverable~~MPPP balance at the time that ~~are~~the balance is recognized as impaired and written off. Since there is ~~an MP3~~a recoverable from the ~~enrollee~~MPPP participant, there should be no income statement amount for an incurred claim until the related ~~MP3~~MPPP recoverable is written off for impairment.

~~25.~~28. When the ~~MP3~~ recoverable from the MPPP participant is impaired, the contra claims expense is decreased by the amount of the ~~MP3~~ recoverable that is written off. This results in the incurred Medicare prescription claim reported reflecting the uncollectible ~~MP3~~ recoverable from MPPP participants for statutory reporting. The premium to offset these claims is included in Medicare premium bids, so reporting the incurred uncollectible ~~MP3~~MPPP amounts as losses allows the statutory accounting loss ratio to reflect incurred Medicare Part D prescription costs which include ~~MP3~~MPPP uncollectible amounts~~.~~ which have been impaired and written off.

~~3. Reporting uncollectible and impaired MP3 recoverables in statutory filings as claims incurred is different than the CMS treatment of which reports such amounts as administrative expense for MLR purposes.~~

Administrative Costs

~~26.~~29. ~~Costs of~~ Other costs, e.g., those incurred by Part D plan sponsors in implementing ~~the MP3~~and administering MPPP program and ~~program~~related collections, are included in the administrative expenses of the Part D plan sponsor and are not included in the claim expenses or claim adjustment expenses.

MLR Reporting Difference

~~27.~~30. Note that the reporting of the uncollectible (impaired) ~~MP3~~ recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS ~~treatment~~requires Part D plan sponsors to report losses from impairments of uncollectible ~~MP3~~ recoverables ~~reports such amounts~~from MPPP participants as administrative amounts. These administrative amounts are included in the denominator of the MLR by CMS.

INT 24-02T Status

~~4.~~3. This interpretation is tentatively effective March 30, 2025.

~~5.~~4. Further discussion is planned.

Appendix 1 - Illustrative Journal Entries

Medicare Prescription Payment Plan Scenarios			
	Claims	**Receivable**	**Cash**
Initial entries for all scenarios *Assumed to have been recorded by the ~~insurance company~~Part D plan sponsor prior to Scenarios 1 – 3.*			
DR Claims Expense *To represent claims expense incurred on behalf of the ~~enrollee~~MPPP participant.*	$ 2,000		
CR Cash *To represent the $2,000 paid by the ~~insurance company~~Part D plan sponsor to the pharmacy on behalf of the ~~enrollee~~MPPP participant.*			$ (2,000)
DR Healthcare Receivable *To represent the amount due to the ~~insurance company~~Part D plan sponsor from the ~~enrollee~~MPPP participant, which the ~~enrollee~~MPPP participant must pay over the policy term.*		$ 2,000	
CR Claims A/R (contra-claims expense) *To be reported within the claims expense line, essentially a contra-claims expense, and represents the amount due to the ~~insurance company~~Part D plan sponsor from the ~~enrollee~~MPPP participant which the ~~enrollee~~MPPP participant must pay over the policy term. This offsets the claims expense amount, so results in a current net $0 impact to the income statement, but both the DR and CR on the income statement are in claims expense.*	$ (2,000)		
Scenario 1 - The ~~enrollee~~MPPP participant pays their full amount of $2,000 to the ~~insurance company~~Part D plan sponsor.			
DR Cash *To record receipt of the ~~enrollee's~~MPPP participant's payment in full.*			$ 2,000
CR Healthcare Receivable *The net income statement impact remains at $0, because the original claims expense was offset by the contra-claims expense (Claims A/R), and since the full $2,000 was received from the ~~enrollee~~MPPP participant, there are no further income statement journal entry impacts.*		$ (2,000)	
Scenario 1 Net result on Financial Statements	**$ -**	**$ -**	**$ -**
Scenario 2 - The ~~enrollee~~MPPP participant pays $1,500 out of the $2,000 to the ~~insurance company~~Part D plan sponsor and doesn't pay the remaining $500.			

DR Cash *To record receipt of ~~enrollee~~MPPP participant partial payment of outstanding balance.*			$ 1,500
CR Healthcare receivable *To reduce ~~enrollee~~MPPP participant receivable for amounts paid.*		$ (1,500)	
DR Claims A/R (contra-claims expense) *To represent the write-off of the receivable. This results in the ~~insurance company~~Part D plan sponsor having a total income statement impact debit to claims expense of $500, represented as the initial $2,000 claims expense for the out-of-pocket ~~-~~paid to the pharmacy by the ~~insurance company~~Part D plan sponsor, offset by the $1,500 received from the ~~enrollee~~MPPP participant.*	$ (500)		
CR Healthcare receivable *To write~~-~~ off the remaining uncollectible amount as impaired*		$ (500)	
Scenario 2 Net result on Financial Statements	**$ 500**	**$**	**$ (500)**
Scenario 3 - The ~~enrollee~~MPPP participant does not pay any of the $2,000 owed to the ~~insurance company~~Part D plan sponsor.			
DR Claims A/R (contra-claims expense) *To represent the write-off of the amount anticipated to be paid by the ~~enrollee.~~MPPP participant. This results in the income statement impact to the ~~insurance company~~Part D plan sponsor being a debit of $2,000, for the amount paid to the pharmacy by the ~~insurance company~~Part D plan sponsor and not reimbursed by the ~~enrollee~~MPPP participant.*	$ 2,000		
CR Healthcare receivable *To represent the write-off of the $2000 receivable.*		$ (2,000)	
Scenario 3 Net result on Financial Statements	**$ 2,000**	**$ -**	**$ (2,000)**

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1a9-comments/naic mppp int 24-02 ahip and bcbsa-tracked.docx

Draft: 12/30/24

Statutory Accounting Principles (E) Working Group
Virtual Meeting
December 17, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Dec. 17, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Richard Russell (AL); Kim Hudson (CA); William Arfanis and Micheal Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson and Bill Werner (LA); Steve Mayhew (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA). Also participating was Rachel Hemphill (TX).

1. Reviewed Comments on Exposed Items

The Working Group met to review comments received (Attachment One-B1) on items exposed at the Summer and Fall National Meetings.

A. Agenda Item 2024-10

Bruggeman directed the Working Group to agenda item 2024-10: Book Value Separate Accounts. Julie Gann (NAIC) stated that at the 2024 Summer National Meeting, the Working Group exposed revisions to *Statement of Statutory Accounting Principles (SSAP) No. 56—Separate Accounts* to allow for review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general account and book-value separate accounts. Gann stated that the American Council of Life Insurers (ACLI) supported much of the exposed guidance updates, especially for transfers between general and separate accounts. She stated that the ACLI had previously presented its interest maintenance reserve (IMR) proposal for transfers to the IMR Ad Hoc Group, which influenced this exposure. Gann stated that, while supporting most updates, ACLI proposed revisions to paragraph 18.b. Gann stated that NAIC staff recommended exposing updated revisions to SSAP No. 56 that reflect several of the ACLI's comments but did not include the ACLI recommendation to delete the example contracts that are expected under the book value measurement method. She stated that they have been noted to not be all-inclusive. Further, although the ACLI did not support codifying a specific approach for other transfers between the general account and separate account, the updated exposure language incorporates a fair value approach for these items.

In response to the staff inquiry on a potential referral to the Life Risk-Based Capital (E) Working Group, Bruggeman recommended not doing a referral at this time since the agenda item is still in the exposure stage. Also, in response to a staff inquiry on the definition of a guarantee, he stated that he does not want to consider changing the definition of a guarantee at this time.

Brad Caprari (Prudential Financial), on behalf of the ACLI, stated that it agrees with much of what was exposed. ACLI does have questions on extending the fair value to other transfers that it will provide in another comment letter. Clark stated that the separate account plans of operations that he had seen had not been overly detailed on the accounting process for other transfers; therefore, he supported the codification. He also stated that since these revisions would not be effective for year-end 2024, there should be time to make amendments to the plans of operations if there are conflicts with the use of fair value as well as further discussion. Clark requested the draft presented at the Spring National Meeting specifically identify a year-end 2025 effective date. Bruggeman also requested that the IMR discussion for other transfers that occur at fair value be presented to the IMR Ad Hoc Group for subsequent discussion.

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Hudson made a motion, seconded by Clark, to expose revisions to SSAP No. 56 as discussed during the meeting. The comment deadline for the exposure is Jan. 31, 2025. The motion passed unanimously.

B. Agenda Item 2024-15

Bruggeman directed the Working Group to agenda item 2024-15: ALM Derivatives. Gann stated that at the 2024 Summer National Meeting, the Working Group exposed this agenda item with a request for feedback on specific questions, which included an overall inquiry on the development of new guidance for the deferral of realized gains and losses for non-accounting effective hedges captured in *SSAP No. 86—Derivatives*. Gann stated that the ACLI supported the development of new statutory accounting guidance for interest-rate hedging derivatives that do not qualify for hedge accounting under SSAP No. 86 but are used for asset-liability management (ALM). Gann stated that this exposure was focused on soliciting information from regulators on whether new statutory accounting guidance should be established that would allow the deferral of gains/losses for derivative transactions that do not qualify as accounting-effective hedges under SSAP No. 86. She stated that the ACLI has indicated support for new accounting guidance. Gann stated that, if the Working Group supports proceeding with this approach, NAIC staff would begin development, working closely with Working Group members and ACLI representatives. She stated that NAIC staff anticipate that the guidance may be complex but if directed, will work to present updates and drafts to the Working Group for consideration.

Gann then identified that several items and discussion points had been included in the agenda to address comments or points raised by the ACLI. She stated that with the extensive, complex information, as well as the limited time to review the comments and agenda, NAIC staff recommend deferring this item without receiving Working Group direction at this time and for the Working Group to continue discussions of this topic at the NAIC Spring National Meeting.

Bruggeman asked for Working Group opinions on whether to defer this topic for future discussion. Hudson stated that he prefers deferring this topic to allow time to review the documents. Walker stated that she would prefer to defer this topic for future discussion.

Mike Reis (Northwestern Mutual), on behalf of the ACLI, stated that this is a complex topic and that the IMR Ad Hoc Group has not finalized any recommendations to date. He stated that the ad hoc group is willing to have a session with regulators to discuss their letter and how these programs are important.

Bruggeman stated that a motion is not necessary for this agenda item since the Working Group decided to defer discussion and direction to a later date.

C. Agenda Item 2024-26EP

Bruggeman directed the Working Group to agenda item 2024-26EP: Fall 2024 Editorial Revisions. Gann stated that at the 2024 Fall National Meeting, the Working Group exposed editorial revisions to *SSAP No. 26—Bonds* to clarify an annual audited disclosure for assets receiving bond treatment, with clarification that the disclosure shall be completed by category and subcategory as reported in Schedule D, Part 1, Section 1, and Schedule D, Part 1, Section 2. She stated that this item was exposed with a shortened comment deadline ending Dec. 9, 2024. Gann stated that although the proposed revisions were drafted with interested parties' representatives, the interested parties' comment letter requests a deferral to further discuss concerns with the proposal. She stated that interested parties believe that the terms "category" and "subcategory" need clarification, as they have interpreted that "category" equates to issuer credit obligations (ICO) and asset-backed securities (ABS) and "subcategory"

equates to examples such as Non-U.S. Sovereign Jurisdiction Securities and Other Non-Financial Asset-Backed Securities—Practical Expedient.

Gann stated that NAIC staff recommend adopting the exposed editorial change to SSAP No. 26. She stated that the proposed requirement is consistent with the current disclosure, just using broad terms to detail the reporting level rather than named categories. She stated that the agenda item was drafted as industry representatives raised concerns that the disclosure, which eliminated the named categories that currently exist in SSAP No. 26, could require a full listing of bonds in the audited financial statements. Gann stated that NAIC staff highlighted that the existing guidance in SSAP No. 26 requires a per-category disclosure breakdown, and although NAIC staff recognize that the categories have been expanded under the principles-based bond project, this has been done to ensure that regulators have more transparency of the investments held that are classified as bonds. Additionally, state regulators often rely on the work of auditors in the annual audit for verification, and NAIC staff have concerns that reliance on the revised reporting categories will be diminished if a more generic audit requirement is permitted.

Bruggeman reiterated that interested parties raised the question of what the reporting categories would be. Gann responded that the categories and subcategories would tie to the specific reporting lines for bonds in Schedule D. Clark asked what level of granularity this would go to, including affiliated versus unaffiliated. Gann stated that this would be broken down into every specific reporting line, which would include separate lines for affiliated and unaffiliated. She also noted that, if adopted by the Working Group at this time, subsequent proposals could be considered from the industry that continue to provide the assurance needed by the regulators.

Bruggeman stated that by adopting this agenda item, a full listing of bonds in the audit report will not be required.

Tip Tipton (Thrivent), on behalf of interested parties, stated that as the industry implements the bond project, they will provide feedback and suggestions. He stated that, as to Clark's comment, interested parties have discussed having a separate listing for all the unaffiliated and then having a grouping for affiliated since they are a small amount of the total.

Hudson made a motion, seconded by Arfanis, to adopt the exposed editorial change to agenda item 2024-26EP: Fall 2024 Editorial Revisions as of Jan. 1, 2025 (Attachment One-B2). The motion passed unanimously.

D. Agenda Item 2024-05

Bruggeman directed the Working Group to agenda item 2024-05: Appendix A-791 Paragraph 2c. Robin Marcotte (NAIC) stated that, at the 2024 Summer National Meeting, the Working Group noted that no written comments were received related to the 2024 Spring National Meeting exposure. She stated that, at the request of the ACLI, the Working Group re-exposed revisions to Appendix-791, paragraph 2.c.'s question and answer. She stated that the comment deadline on this agenda item was subsequently extended to Dec. 9. Marcotte provided a summary of the ACLI comments related to the exposure. She stated that the ACLI would like to retain the language in Appendix A-791, paragraph 2.c., which was exposed for deletion. She noted that ACLI comments indicated that Appendix A-791 already provides an objective standard by which to assess whether yearly renewable term (YRT) premiums are excessive. That is, premiums are considered excessive if they result in the deprivation of ceding insurer surplus. She also noted that the ACLI referenced its proposed revisions to agenda item 2024-06: Risk Transfer Analysis of Combination Reinsurance Contract as addressing its comments on this item.

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Marc Altschull (ACLI) stated that ACLI believes the two proposals (2024-05 and 2024-06) are inextricably linked and should be considered together. He stated that the ACLI position is slightly different than described by Marcotte. He stated that if the ACLI proposed changes to agenda item 2024-06 are adopted, it would no longer have concerns with agenda item 2024-05.

Marcotte stated that NAIC staff continue to agree with the original Dec. 9, 2023, Valuation Analysis (E) Working Group referral to the Working Group which noted that the sentence in A-791, paragraph 2.c., is an unnecessary sentence. She stated that the sentence proposed for deletion is to contrast that individual life insurance is different in the question/answer about group term life. She stated that the reason that the Valuation Analysis (E) Working Group suggested deleting the sentence is that companies were misusing it to imply that the different individual life rules could incorrectly be used for group term life.

Bruggeman commented that the sentence proposed for deletion is a comparison statement to reference individual life reinsurance in a question and answer about group life reinsurance. He noted that he has a hard time seeing how that sentence should be referenced as a safe harbor for individual life reinsurance when it is trying to answer a question about group life reinsurance.

Hemphill stated that this item came up during actuarial reviews and was being interpreted by some companies as the converse of what was stated. For context, the sentence proposed to be deleted is "Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide." She noted that the sentence states that above the stated amount would be unreasonable. It does not say below the stated amount is reasonable. She said it was an aside and that regulators need to look at all the existing requirements. She stated that there is not just one statutorily prescribed valuation mortality method and that the *Valuation Manual* (in effect since 2020) provides specific instructions. She noted that the valuation mortality can change over time and from company to company. She noted that she supports removing the aside statement. Bruggeman asked if a new reinsurance agreement covered pre-2020 business. For example, would a block written in 2015 change the discussion on valuation mortality? Hemphill replied that she did not think it did because even prior to the *Valuation Manual's* effective date, there were other aspects of the framework that made it more complex than just one statutorily prescribed valuation mortality.

The Working Group deferred action on this agenda item to allow for a future discussion at a joint meeting with the Life Actuarial (A) Task Force along with agenda item 2024-06.

E. Agenda Item 2024-06

Bruggeman directed the Working Group to agenda item 2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts. Marcotte stated that the Working Group exposed agenda item 2024-06 in March 2024 to address the risk transfer aspect of a December 2023 referral by the Valuation Analysis (E) Working Group. She stated that the exposed SSAP No. 61 revisions were narrowly focused and incorporated guidance noting that interdependent contract features such as shared experience refunds must be analyzed in the aggregate when determining risk transfer. Marcotte stated that at the 2024 Summer National Meeting, the Working Group reviewed two letters. She stated that one letter was in support of the exposed revisions and the ACLI comment letter requested further discussion. She stated that at the Summer National Meeting, the Working Group re-exposed the revisions previously exposed at the 2024 Spring National Meeting with a request for specific recommendations. She stated that the comment deadline on this agenda item was subsequently extended to Dec. 9, 2024, at the request of the ACLI.

Marcotte stated that the Working Group exposure is based on existing guidance that is in both U.S. generally accepted accounting principles (GAAP) and in *SSAP No. 62—Property and Casualty Reinsurance,* Exhibit A—Implementation Questions and Answers, question 10. She stated that the exposed guidance provides that contracts with interdependent features must be analyzed in the aggregate for risk transfer. She stated that, in addition, a reference to A-791, paragraph 6, which requires that the reinsurance contract include provisions that the contract shall constitute the entire agreement was proposed to be added to the existing required YRT criteria. Marcotte stated that the Valuation Analysis (E) Working Group referral included an example of coinsurance and YRT combined in the same contract with a shared experience refund and the inability to independently cancel the coverages. The Valuation Analysis (E) Working Group recommended regulatory discussions and clarifications to be clear that interdependent contract features, such as a shared experience refund, must be analyzed for risk transfer in the aggregate. The Valuation Analysis (E) Working Group observed that the bifurcated risk transfer analysis was not adequate. The Working Group observed some overstated reserve credits and commented that some of the treaties resulted in coverage that was, in essence, non-proportional. As noted, the exposure focused on the interdependent contract features and aggregated risk transfer analysis.

Marcotte stated that the Working Group received comment letters from the ACLI and Jeffrey Stevenson (Stevenson Associates Inc.). She stated that, as all the parties who have commented agree that the entirety of the contract must be analyzed, NAIC staff continue to support the adoption of the exposed revisions with timing subject to the discretion of the Working Group. She stated that, if the Working Group wants to continue discussions on this topic, NAIC staff recommend a joint meeting of the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force because actuarial expertise would be beneficial in discussing some of the comments received on the actuarial risk transfer analysis.

Marcotte stated that NAIC staff do not recommend exposure of the ACLI proposed language, which proposes to require bifurcated risk transfer analysis in conjunction with another aggregate test of risk transfer using valuation mortality. The Valuation Analysis (E) Working Group has noted concerns with bifurcated analysis. NAIC staff also have concerns that because the valuation mortality can change over time, using that measure could still result in the ceding entity being deprived of surplus over time.

Altschull stated that the ACLI is still in the process of reviewing the comments on this topic. He stated that, through discussions and in the materials for today's discussion, the ACLI understands that regulators believe that some combination coinsurance and YRT agreements with interdependent features will pass risk transfer, and some will not. However, based on the ACLI review of the meeting materials, it is unclear how the NAIC proposed exposure directs them to differentiate between contracts that should pass and those that should fail compliance. He stated that, contrary to regulator intention, this lack of clarity is evidenced by interpretations by some that combination agreements are non-proportionate and should not provide reserve credit.

Altschull stated that the ACLI would like to clarify that their proposed framework includes a bifurcated analysis in conjunction with an aggregated analysis. Specifically, they suggest applying statutory accounting principle (SAP) guidance to each component and performing an overall assessment of the combined agreement to ensure that ceding insurer surplus is not deprived which would be consistent with its proposed fundamental principle. He stated that the ACLI believes this solution, including separate analyses of each treaty in isolation, provides a much stronger overall evaluation of co-YRT agreements than just relying on an aggregate analysis. He stated that, given these specific areas of misunderstanding and the limited time they have had to review the NAIC staff feedback, the ACLI would appreciate continued dialogue.

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Stevenson stated that he shares the ACLI's stated goal of identifying agreements that inappropriately preclude losses from reinsurance products being incurred because of excessive YRT premiums. However, he notes that the ACLI seems to have taken the position that if the aggregated risk transfer analysis results in even minimal amounts of risk transfer, then that eliminates any concerns. Stevenson noted that he does not think that is the appropriate approach for the risk transfer analysis, and he believes that analysis should be focused on whether the losses are appropriate for the reserves (credits) that are taken. He stated that one of the key principles of reinsurance is that when a reinsurer reinsures the business, if there is a covered loss, the reinsurer pays. He stated that under this key principle, the reserve credits are fine because the reinsurer is basically making a guarantee of those reserves that are left on the books. He stated that the reserves left on the books in some of the problematic contracts are probably insufficient to pay all the claims. He stated that there are two separate kinds of reinsurance agreements that are structurally different, proportional and nonproportional. When the two types of reinsurance are combined, the characteristics of the resulting underlying agreements can be changed. He stated that he agrees with the ACLI that some of these agreements will be fine, but there will be some that will not be fine. He stated concerns that there will be situations in which the reserves are deficient, and this will lead to further problems in the industry.

Bruggeman asked Stevenson for confirmation of his understanding that he agreed with part of the ACLI comments. Stevenson stated, "Yes," that he agreed that some of the combination contracts would be able to pass risk transfer, and some would not. Bruggeman noted that this topic is quite complex, and more time for discussion would be useful.

Hudson agreed that more discussion is needed and expressed support for a joint meeting with the Life Actuarial (A) Task Force. Bruggeman agreed with Hudson and requested that NAIC staff schedule a joint meeting between the Working Group and the Life Actuarial (A) Task Force in early 2025. Bruggeman noted that having more perspective from the regulatory actuaries would be useful.

Stevenson stated that one of the real issues at hand is that there are companies with direct reserves for business that are barely sufficient due to interest rate issues. Then the company adds a YRT component on top of that and uses that YRT component to say the reserve has now become sufficient, which is not the case. Stevenson also noted that coinsurance is proportional and YRT is nonproportional, and when companies put those two together, it fundamentally changes the nature of the agreement. He noted it can make the agreement function more like an excess of loss agreement.

Bruggeman noted that one of the difficulties on this issue is clearly determining whether a coinsurance YRT agreement will pass or not. As noted, there are some coinsurance YRT agreements that would pass without any issues, but others overload the contract and make it more akin to a YRT-only agreement.

Marcotte asked for verification that the Working Group is deferring and not re-exposing this agenda item. Clark stated that he does not support the re-exposure of this agenda item and, instead, would like the Working Group to continue to hear comments from actuaries.

Bruggeman stated support for Clark's suggestion to defer discussion. The agenda item was deferred for future discussion. Bruggeman stated that NAIC staff will pick a date for a joint meeting of the Working Group and the Life Actuarial (A) Task Force.

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2. Considered the Maintenance Agenda—Pending List

A. Agenda Item 2024-27

Bruggeman directed the Working Group to agenda item 2024-27: Issue Papers in Statutory Hierarchy. Gann stated this agenda item was drafted to capture issue papers in level 5 of the statutory hierarchy pursuant to the direction from the 2024 Fall National Meeting. She stated that revisions have been proposed to update the process to develop issue papers to reflect current Working Group practice. For example, historical guidance references issue papers as the first step of a new SSAP/new SAP concept, but current practice most often has issue papers developed after statutory accounting revisions to detail discussions and decisions for historical reference. She stated that the revisions in the agenda item include reference to statutory issue papers in level 5 of the statutory hierarchy, guidance on issue papers in Appendix E—Issue Papers introduction, guidance on issue papers in the "How to Use This Manual" section, and reference to issue papers in the NAIC Policy Statement on Maintenance of Statutory Accounting Principles.

B. Agenda Item 2024-28

Bruggeman directed the Working Group to agenda item 2024-28: Holders of Capital Notes. Gann stated that this agenda item was prepared in response to the direction of the Working Group during the Fall National Meeting with the adoption of *Interpretation* (*INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*. She stated that with the adoption of the INT and the guidance for reporting certain debt securities as capital notes in the scope of *SSAP No. 41—Surplus Notes*, the industry identified that slight revisions may be necessary to reflect the capital note distinctions. Gann stated that the Working Group directed NAIC staff to work with the industry in this review and identify necessary changes. She stated that revisions have been proposed to incorporate a definition and/or reference to the INT for capital notes, clarifying the admittance restrictions, clarifying the guidance for NAIC designations, and updating the impairment guidance to refer to capital notes. She stated that, in addition to these items, it was identified that an existing disclosure for surplus notes, which requires disclosures of holders for registered surplus notes, is likely an administrative burden and, as a narrative disclosure only, is difficult to query by regulators. Gann stated that from a review of the disclosure, it predates the issuance of SSAP No. 41, and there are questions as to its purpose or use. She stated that NAIC staff have proposed to eliminate this aspect of the disclosure but retain the disclosure focusing on surplus notes with affiliates. Gann stated that NAIC staff recommend the Working Group expose changes to incorporate the presented revisions to SSAP No. 41 and incorporate changes to clarify the reporting categories in the annual statement instructions. She stated that this agenda item recommends a corresponding blanks proposal for concurrent exposure of the annual statement instructions revisions.

3. Considered the Active Maintenance Agenda

A. Agenda Item 2024-16

Bruggeman directed the Working Group to agenda item 2024-16: Repack and Derivative Investments. Gann stated that during the Fall National Meeting, the Working Group elected not to proceed with the proposed edits to SSAP No. 86 to require bifurcation of debt securities with derivative wrappers or components. She stated that, with this action, debt securities with derivative components that reflect structured notes will be retained in SSAP No. 86, and all other debt securities with derivative components and wrappers shall be assessed in accordance with the principles-based bond definition. She stated that debt securities that do not qualify as bonds under the principles-based bond definition should be reported as non-bond debt securities in the scope of *SSAP No. 21—Other*

Admitted Assets and on Schedule BA. Gann stated that the Working Group agreed to proceed with the clarifications in the investment acquisition and disposal schedules and the sponsoring of a blanks proposal to ensure that a debt security sold to a special purpose vehicle (SPV) and reacquired with derivative components is shown as a disposal and an acquisition in the investment schedules. She stated that NAIC staff recommend that the Working Group expose this item to be concurrent with a blanks exposure to update the investment disposal schedules.

Clark made a motion, seconded by Hudson, to expose agenda items 2024-27: Issue Papers in Statutory Hierarchy, 2024-28: Holders of Capital Notes, and 2024-16: Repack and Derivative Investments with an exposure period ending Jan. 31, 2025. The motion passed unanimously.

4. Discussed Other Matters

Gann stated that four agenda items were exposed until Dec. 16, 2024. Although comments have been received, they are not planned for discussion until 2025, either at an interim meeting or at the 2025 Spring National Meeting.

Gann stated that the most recent statutory accounting update recording is available from the NAIC Education Department, and it includes a quiz that can result in continuing education credits.

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

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Statutory Accounting Principles (E) Working Group
Dec. 17, 2024
Comment Letters Received – Agenda 1

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
Comment Letters Received for Items Exposed for the Fall National Meeting	
ACLI – December 9, 2024 o Ref #2024-05: Appendix A-791 o Ref #2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts	2-6
Jeffrey G. Stevenson FSA (Sevenson Associates, Inc) Comments – December 11, 2024 o Ref #2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts	7-10
ACLI – November 6, 2024 o Ref #2024-10 – Book Value Separate Accounts	11-19
ACLI – November 4, 2024 o Ref #2024-15 – ALM Derivatives	20-70
Interested Parties – December 9, 2024 o Ref #2024-26EP	71-72

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December 9, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Request for Comments on SAPWG 2024-05 and 2024-06

Submitted Electronically

Dear Mr. Bruggeman:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the above referenced items that were re-exposed for comment by the Statutory Accounting Principles (E) Working Group (SAPWG) during the NAIC Summer National Meeting in Chicago.

ACLI would like to express our sincere gratitude for your time and willingness to collaborate with us on these reinsurance matters. We value the open dialogue and believe it has contributed to a more informed and constructive regulatory process. Through our discussions, we have gained a deeper understanding of the concerns raised by SAPWG regulators while also conveying the perspectives of our members.

ACLI members continue to believe that the two proposals (Ref #2024-05 and Ref #2024-06) are inextricably linked and should be considered together.

Ref #2024-05: A-791 Paragraph 2.c.

ACLI members believe that retaining the language in Appendix A-791, paragraph 2c, is consistent with the statutory accounting requirement that reinsurance should not deprive a ceding insurer of surplus. With that said, we propose changes below to SAPWG 2024-06 that, if adopted, would address our concerns with the exposed changes in SAPWG 2024-05.

ACLI agrees that statutory risk transfer requires a careful evaluation of the facts and circumstances of a reinsurance agreement and should never rely on a simplistic application of “safe harbor” rules. Appendix A-791 already provides an objective standard by which to assess whether YRT premiums are excessive. That is, premiums are considered excessive if they result in the deprivation of ceding insurer surplus. The adoption of the change proposed by 2024-05 might be interpreted as introducing some

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other standard to determine whether premiums are excessive. However, no objective criteria have been provided by which to apply such other standards and, as a result, the adoption of the proposed change serves to create the potential for a range of interpretations as to what constitutes an excessive YRT premium. Such differences in interpretation are already surfacing with some parties interpreting the combination of the two SAPWG exposures to indicate that all combination Coinsurance-YRT (Co-YRT) agreements are non-proportional and therefore do not provide reserve credit; a conclusion that ACLI believes is inconsistent with SAPWG intent based on conversations we have had with regulators.

To avoid the potential for misinterpretation, ACLI proposes that the 2024-05 exposed changes only be adopted if done concurrently with the ACLI version of SAPWG 2024-06 proposed below.

Ref #2024-06: Risk Transfer Analysis for Combination Reinsurance Contracts

ACLI would like to thank SAPWG for the ongoing discussions regarding SAPWG 2024-06. During our discussions, we showed that combination Co-YRT agreements can be structured in ways that satisfy statutory risk transfer requirements as well as in ways that fail to satisfy statutory risk transfer requirements. We showed that when the YRT premiums were set at or below valuation level mortality, risk transfer was achieved (as ceding insurer surplus was protected against deprivation), but when YRT premiums were in excess of these amounts that risk transfer was not achieved (as ceding insurer surplus was not protected and could become negative). We concluded that taking a full proportional reserve credit for coinsured business and a ½ c_x credit for business ceded on a YRT basis (under a combination Co-YRT agreement) would be appropriate when agreements meet statutory risk transfer requirements such as having YRT premiums set at or below valuation mortality. To clarify SAPWG 2024-06 in order for it to recognize this result, we propose the following refinements to the exposure.

Proposed Risk Transfer Framework

ACLI proposes the following framework for assessing combination Co-YRT agreements for statutory risk transfer purposes:

- Any risk transfer assessment of combination Co-YRT agreements should be conducted in the context of applicable SAP guidance and based on the facts and circumstances of the relevant reinsurance agreement(s).
- SAP coinsurance guidance should be applied to the coinsurance component of the agreement(s) and SAP YRT guidance should be applied to the YRT component of the agreement(s).
- Additionally, an overall assessment of the combined agreement should be performed consistent with the requirement that “the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder[.]”[1] to ensure that ceding insurer surplus is not deprived.

ACLI agrees that if any individual component of a combination Co-YRT agreement does not pass statutory risk transfer, then the aggregate transaction would not pass statutory risk transfer regardless of how it is structured. An overall assessment should include, among other things, an evaluation of:

i) the coinsurance agreement(s) to ensure that all significant risks inherent in the reinsured business are transferred, and

[1] A-791 Page 6

ii) the YRT agreement(s) to ensure that the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k. are not violated, and

iii) the entire agreement to confirm that, when assessed in aggregate, it does not deprive a ceding insurer of surplus or require payments other than from the statutory net gain before adjustments (i.e., as defined in the 2023 SAP life blank line 29, hereinafter "net gain") realized from the reinsured policies.

ACLI agrees that agreements that inappropriately preclude any possibility of reinsurance losses being incurred because of excessive YRT premiums would be of concern from a statutory risk transfer perspective. In evaluating whether this is the case, YRT premium levels should be assessed using statutory principles as any resulting reserve credit will also have been established using statutory principles. In applying statutory principles, statutory valuation assumptions serve as an acceptable benchmark when assessing whether YRT premiums are excessive. More specifically:

- YRT reinsurance results in the assumption of mortality risk for the lifetime of the underlying business. In such a context, the statutory valuation framework already defines a reasonably prudent valuation mortality basis for ceding insurers when reserving for such risks. As such, this same valuation mortality basis should also serve as a reasonable and prudent benchmark for reinsurers to consider when committing to the assumption of mortality risk for the lifetime of the underlying business.

- The determination of reserve credit relates to the underlying statutory reserves that are held by the ceding insurer and determined based on statutory principles and assumptions. It would be inconsistent to determine a reserve credit using GAAP principles and assumptions in relation to underlying reserves that are computed using statutory principles and assumptions.

Proposed Changes to SSAP61 and Appendix A-791

In response to SAPWG's request for specific recommendations, ACLI proposes the following changes to SSAP61 and the introduction of a new question to be added to Appendix A-791 in lieu of the exposed changes proposed in SAPWG 2024-06.

ACLI proposes the following paragraph be adopted in SSAP61. This proposal aims to maintain SAPWG's objective of evaluating agreements in aggregate and ensuring the appropriate application of current risk transfer principles.

18. *For purposes of evaluating whether a reinsurance agreement satisfies statutory risk transfer requirements, the determination of what constitutes an agreement is essentially a question of substance. Multiple agreements should be evaluated together for risk transfer purposes when they are entered into together to achieve one overall commercial effect and where considerations to be exchanged under one agreement depend on the performance of the other agreement(s). For individual agreements that contemplate reinsurance on both a YRT and coinsurance basis, each of the YRT and coinsurance reinsurance components need to satisfy risk transfer requirements on their respective bases. In addition, when evaluated in its entirety, such agreements cannot deprive the ceding insurer of surplus nor require payments to the reinsurer for amounts other than the net gain realized from the reinsured policies.*

ACLI proposes a second question be added to Appendix A-791 2b:

Question

If business is reinsured under a combination reinsurance agreement where the reinsurer assumes certain risks on a coinsurance, modified coinsurance, and/or coinsurance funds withheld basis and other risks on a YRT basis, what conditions are required to ensure that the ceding insurer is neither deprived of surplus nor required to make payments to the reinsurer from other than the net gain realized from the reinsured policies such that risk transfer is achieved? How are these conditions impacted by the agreement having an experience refund formula?

a. *The reinsurance agreement cannot deprive the ceding insurer of surplus or assets. If treaty provisions limit payment of amounts to the reinsurer to the amount of net gain realized from the reinsured business, then the ceding insurer surplus is not deprived, and risk transfer is achieved.*

   For example, risk transfer requirements are satisfied when YRT premiums are contractually stipulated to be equal to or less than the level of valuation mortality used by the ceding insurer in calculating reserves for the reinsured business at the time of inception of the reinsurance agreement and are contractually constrained not to exceed this level.

b. *The fact that there is an experience refund does not, in itself, cause an agreement to fail risk transfer. However, an experience refund that requires that the ceding insurer reimburse the reinsurer for negative experience using amounts it has in surplus is a violation of risk transfer requirements, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in-force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience.*

Summary

Ultimately, our primary concern remains that some may interpret the proposed 2024-06 exposure to indicate that all combination Co-YRT agreements are non-proportional and therefore should not provide reserve credit. Such an interpretation would affect in-force combination Co-YRT agreements and create the potential for material volatility in surplus levels for ceding insurers who have previously entered into such agreements. In addition, such an interpretation would effectively eliminate the ability to use such agreements going forward. Based on our discussions with SAPWG, it is our understanding that neither of these outcomes are intended.

Another concern is that some may interpret the proposed 2024-05 exposure to require an assessment of YRT premiums using a standard other than the existing standard provided in SSAP61 that precludes ceding insurer surplus deprivation. In such a case, there could be significant variation in regulatory interpretations as to what constitutes an “excessive” YRT premium leading to inconsistency rather than harmonization.

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ACLI believes that one way to maintain the ability to use compliant combination agreements and not bring into question the reserve credits currently being taken by ceding insurers who are party to such agreements is by adopting proposed changes to SSAP61 and Appendix A-791 consistent with those proposed by ACLI above. Such changes aim to make clear that compliant agreements cannot charge "excessive" YRT premiums and provide a clear basis for how an assessment of YRT premiums anchored to existing SAP guidance is to be performed.

Along with the suggested changes above, we propose forming a small working group consisting of regulators and industry experts to finalize language consistent with the objectives noted above within a defined timeline.

Thank you for the opportunity to provide feedback on these two exposures. ACLI is committed to collaborating with the NAIC and state regulators and welcome further discussion.

Sincerely,

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December 11, 2024

To the Statutory Accounting Practices Accounting Working Group for issue 2024-06

I am a retired actuary with years of experience in reinsurance, primarily with respect to transactions where the primary motivations are not primarily risk transfer. Not long ago I was asked about a treaty arrangement involving combinations of coinsurance and YRT and was told there was some controversy with respect to the accounting.

Combination coinsurance and YRT agreements have been around forever; there shouldn't be much controversy.

Traditionally, the YRT combined in coinsurance agreements is YRT reinsurance inuring to the benefit of the reinsured block.

In this respect, the cash flows of the coinsurance (or Modco) treaty (principally of those intended for purposes other than risk transfer) have traditionally been:

+Premiums
-Claims
-Surrender & Maturity Benefits
-Commissions and Expense Allowances

-Ceded Reins Prems (on Inuring agreements)
+Ceded Reins Dbs (on Inuring agreements)
+Ceded reins Exp Refunds (on Inuring agreements)

-Modco Res Incr (if Modco)
+Modco Interest (if Modco)

- Experience Refunds (if included)

The above result may result in an expense and risk charge with favorable experience.

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The inuring agreements in the above could be YRT of mortality risk or other coinsurance of reinsured business of the benefits or even catastrophic stop loss arrangements. The inuring agreements could be traditional YRT with an experience refund arrangement. They could also be YRT agreements of a more financially motivated arrangement, i.e., a high YRT premium based on a high percentage of the valuation mortality basis, combined with a large experience refund.

There is no reason the YRT couldn't be additional quota share of the same block as the coinsurance. Why would ceding companies do this? Well in past circumstances, perhaps they were reinsuring the business with two reinsurers and one reinsurer does not want to retain catastrophic mortality risk but the second reinsurer is willing to take that additional risk in addition to the risks in its own portion of the reinsurer. Including such reinsurance in the single tradition would be done for administrative convenience and if structured as YRT would include additional impacts on reserve and capital requirements. This type of arrangement would not be uncommon for divestiture of the business (might be referred to as administrative reinsurance). My first impression of the combo YRT treaties presented to me is that the additional YRT is nothing more than inuring reinsurance regardless of what the reinsured business is, just like these arrangements in the past.

My understanding of the new variations of combo treaties is that the YRT is indeed an additional quota share of the coinsured business but the interpretation is that the YRT is not inuring to the benefit of the coinsured business. In fact, in the new interpretations the YRT is treated as a separate agreement with its own cash flows. Moreover, the YRT mortality risk treaty might be on the basis of a high percentage of the valuation table thereby generating a generous experience refund under expected assumptions.

The interpretation being made that the extra YRT arrangement is more like a standalone rider produces a result that in the event of adverse investment scenarios, the high experience refund (on the YRT mortality component) can be combined with adverse experience on the coinsured business to merely produce a lower experience refund with the reinsurer not necessarily reimbursing the ceding company for the adverse experience of the coinsured business.

That might look okay with the arithmetic but in my opinion it is a clear violation of the life reinsurance model regulation. The reserve or capital credits associated with any treaty with such an arrangement (and with the YRT component not accounted for as inuring reinsurance) should be denied.

Here is the explanation.

Accounting requirements of the model regulation are:

1. Renewal expense allowances provided or to be provided to the ceding insurer by the reinsurer in any accounting period, a must be sufficient to cover anticipated allocable renewal expenses of the ceding insurer on the portion of the business reinsured
2. The ceding insurer can't be deprived of surplus or assets at the reinsurer's option or automatically upon the occurrence of some event
3. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement

4. The reinsurance agreement can't involve the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies.

The new interpretation of the added YRT component (an additional quota share of the underlying coinsured business) violates some of all of these accounting requirements.

First off, as for the YRT exemption from the requirements of the model regulation, the combo treaty "interpretation" does not allow for any YRT exemption because the surplus and capital aid of the combination exceeds that of a zero premium YRT treaty. The model regulation accounting requirements should apply to all the components of the treaty.

Let's assume the coinsured portion of the business produces negative cash flows as a result of poor investment experience and the additional YRT business produces an experience refund that more than offsets the negative experience.

Note that all reinsurance has a cost. The YRT portion of the business has a cost associated with it. The cost is Premiums minus Claims minus Experience Refund. (This typically nets to a cost equal to a risk fee or the profit margin of the reinsurer which may or not be a mere risk fee). But in this case the adverse experience of the coinsured business reduces the YRT portion's experience refund, that YRT reinsurance now has an additional cost in addition to the profit margin.

That cost is now a cost of the ceding company. Reinsurance costs of the ceding company have to be reimbursed by the reinsurer through the expense allowance. In this case then, the reinsurer has to reimburse its own charge, thereby resulting in a wash, so there is, in fact, no recovery of the adverse experience refund.

You can also think of the experience refund as an "optional experience refund". In this case a portion of the YRT experience refund is denied at the option of the reinsurer (it's automatically denied with the occurrence of the adverse experience on the coinsurance). So the use of the YRT as an offset to adverse experience is automatically denying the ceding company of surplus automatically on the occurrence of some event.

The recovery of the adverse experience on the coinsurance is also technically a payment that is not made out of the profits on that coinsured business. It is coming out of an additional premium payment to the reinsurer (the YRT premium).

I recognize that some might make nuanced arguments against these above arguments. However, and most importantly, let's look at the essential substance of the YRT portion of the transaction. The companion YRT arrangement typically has a YRT premium which is a high percentage of valuation mortality (let's say 90%) and any premiums in excess of the claims are experience refunded net of a risk charge. The substance of this transaction is that there is a risk charge paid and claims in excess of 90% of valuation mortality are experience refunded back to the ceding company. (Now this might be structured as YRT because there are other accounting entries such as face amount ceded and reserve credits accompanying the accounting, but the essence of the transaction is essentially a non-proportional stop loss arrangement). The YRT component of the transaction is basically a stop loss

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arrangement with a risk charge for a premium. In exchange for this risk premium, the reinsurer will pay claims only if they exceed the percentage of the valuation basis mortality relating to the premium. It is an excess of loss structure.

So if we think of the companion YRT agreement in this true economic form, the companion treaty in addition to the coinsurance is nothing more than a risk premium paid to the reinsurer for catastrophic mortality. From this standpoint, the combo treaty arrangement's result in the event of adverse experience on the coinsurance is that the reinsurer is receiving a payment in addition to the risk charge from the ceding company to cover that adverse experience (as is argued above). This is because in order for the transaction to provide for an offset to the losses on the coinsurance, the ceding company would be required to make a payment to the reinsurer in addition to the risk charge! When viewed from this true economic perspective, this is clearly a violation of the model regulation.

To argue that merely changing the companion contract from a stop loss format to an equivalent YRT structure would change the above interpretation (that the contract violates the model regulation) seems just plain wrong.

One can also think of this additional payment as essentially the same as using an artificially high interest rate (like 12%) to calculate coinsurance experience refunds or modco profits. Everyone should recognize that this provision would be a violation of the model regulation as it would be an additional payment or a payment outside of profits in the business. Likewise, any additional premium paid, or reduction in experience refund of associated treaty provisions, would similarly be a violation of the model regulation.

In P&C arrangements, there is often reference to this type of arrangement as a "reinstatement premium". This has no place in a life reinsurance transaction.

This concluding argument of looking through to the substance of the transaction validates all the other above arguments that this new interpretation of the combo structure violates the model regulation!

If the additional YRT is, in essence, accounted for as an inuring agreement, just has it has always been done, the appropriate cash flows fall out in the treaty accounting and the reserve credits are justified.

Respectfully submitted,

Jeffrey G. Stevenson, FSA

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November 6, 2024

Mr. Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
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Kansas City, MO 64106-2197

Re: 2024-10 – Book Value Separate Accounts

Dear Mr. Bruggeman:

The ACLI appreciates the opportunity to comment on the exposure referred to above that was released for comment by SAPWG on August 13, 2024.

We support clarification of statutory accounting guidance for Book Value Guaranteed Separate Accounts. ACLI is very appreciative of the on-going dialogue with SAPWG and the IMR Ad Hoc Working Group and stands ready to continue working with the NAIC on this initiative.

Within the exposure, NAIC staff has proposed changes to SSAP 56 and identified several items for further discussion. ACLI would like to provide specific comments regarding existing SSAP 56 guidance and proposed changes to SSAP 56, in addition to direct responses to NAIC Staff Questions.

The ACLI is in support of much of the exposed guidance updates. Particularly, we are in support of the proposed guidance for transfers between General Account and Separate Account (paragraphs 19 – 22). The ACLI previously provided a detailed presentation entitled "ACLI Derivative IMR Solution Proposal" ("ACLI Solution," included as Appendix I) to the IMR Ad Hoc Working Group. Discussions of the ACLI solution at the NAIC Ad Hoc IMR WG were the impetus for this exposure. The exposed guidance updates to SSAP 56 largely reflect the findings from the ACLI Solution presentation and, should it be beneficial to regulators, the ACLI would appreciate the opportunity to present to the full SAPWG membership and any additional interested regulators.

While in support of much of the exposed guidance updates, the ACLI would like to further discuss some of the proposed guidance for Book Value Guaranteed Separate Accounts; specifically within SSAP 56 paragraph 18b. The General Account is often ultimately obligated to act as "an overall backstop or providing a guarantee", the ACLI has found that the distinct performance guarantee can be specified for some contracts. The current wording can be interpreted that a distinct performance guarantee is never specified and we recommend the following verbiage change: "…although a distinct performance guarantee may not be specified (such as minimum crediting rate, death benefit, etc…)….

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Additionally, while the first sentence of 18b is clear that Book Value Separate Accounts should be created with regulator approval, the subsequent inclusion of a list of current approved policy types could be misinterpreted as a restrictive list of those policy types available for regulator approval rather than a list of current examples. The ACLI recommends removing reference to specific Book Value Separate Account policy types to avoid the potential for misinterpretation and the subsequent diversity in practice that may lead to.

Also, stating that book value separate accounts provide benefits that are not directly tied to the performance of the assets is not always accurate as there are certain book value separate accounts where the asset performance is used to determine the general account obligation. Our proposed edits are highlighted below, which address these comments:

> 18.b. With approval of the state insurance regulator, assets supporting insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account, but do not directly pass all investment experience of the underlying assets to the policyholder, will be recorded as if the assets were held in the general account. Unlike traditional separate account contracts, these contracts do not have investment directives determined by the contract holder and investment performance results are not attributed to a specific contract holder. The general account may serve as an overall backstop or may provide an implied guarantee, although a distinct performance guarantee may not be specified (such as a minimum crediting rate, death benefit, etc.).

Within the exposure NAIC Staff posed specific questions (below in **bold**) with ACLI responses immediately following:

NAIC Staff Question: Information on the current measurement method for seed money is requested from industry. Although the guidance implies that seed money should be at book value, there is an assumption that companies may utilize fair value when included in a fair value separate account.

Fair Value Separate Accounts are primarily invested in assets that would otherwise be recorded at Fair Value if held directly on the General Account. While ACLI has, to date, not identified any diversity in practice from SSAP 56 paragraph 17 guidance, we do recognize the possibility that commingling of seed money and policyholder funds within the investment strategy assets has the potential to lead to fair value reporting of seed money that would not otherwise be recorded at Fair Value if held directly on the General Account. The ACLI welcomes further discussion with regulators to determine if the accounting guidance updates currently being exposed can be utilized to solve for the, albeit remote, potential for diversity in practice.

NAIC Staff Question: Feedback is requested on the named contracts (PRT and RILA) and whether other example contracts should be named.

In addition to PRT and RILA, BOLI policies have also been identified as current separate account policy types being carried at Book Value by member companies. As previously addressed above, the listing of current book value separate account policy types does not account for the development and regulator approval of book value separate account policies in the future. As has been the case with the

existing guidance, the listing of policy types could be misinterpreted by some as a definitive listing of approved Book Value Separate Accounts which will again lead to diversity in practice and the need to regularly update guidance to include new policy types within the list and/or could lead to implicit prescribed practices. For these reasons, the ACLI recommends that neither a full list nor example list of policy types be included within the guidance.

NAIC Staff Question: Additional information is requested from industry on these transfers (asset to asset swaps, contributions of general account assets to support separate account deficiencies, dividends of assets from the separate account to the general account). NAIC staff recommend that these areas be expanded with consistent guidance for the treatment of transfers.

The ACLI maintains that these types of transactions remain a) not common and b) often subject to accounting standard outlined within each separate account Memorandum or Plan of Operations ("Memorandum of Operations). Any codification of accounting guidance for these transactions could result in implicit prescribed practices where updated accounting guidance within SSAP 56 differs from the accounting guidance agreed upon with the domicile state within the Memorandum of Operations. The ACLI recommends further discussion as to the appropriateness of recommended expanded treatment, specifically as relates to the potential for and complications that arise from prescribed practice, effecting changes to Memorandum of Operations, and/or applying expanded guidance only to policies written after a certain date.

NAIC Staff Question: Clarification is requested to this guidance for seed money similar to the prior question.

The ACLI maintains that reporting guidance for seed money transfers, other than seed transfers of cash, can often be subject to accounting standard outlined within each separate account Memorandum of Operations. Please refer to concerns expressed in the prior question.

Once again, the ACLI appreciates the opportunity to provide comment and looks forward to continued dialogue and collaboration on Book Value Separate Account guidance. If you have any questions regarding this letter, please do not hesitate to contact us.
Sincerely,



Mike Monahan
ACLI

Cc: Julie Gann, Assistant Director - Solvency Policy, Robin Marcotte, Senior Manager II, Accounting Policy, Jake Stultz, Manager II – Accounting Policy, Jason Farr Senior SCA Valuation and Accounting Policy Advisor, and Wil Oden, Senior Technical Accounting Policy Advisor

Appendix I

Demonstration of Separate Account Transfers and IMR Treatments

As part of the holistic review of Interest Maintenance Reserve ("IMR"), industry members of the American Council of Life Insurers ("ACLI") have conducted a cursory review of the accounting treatment of IMR eligible asset transfers for cash between Book Value Separate Accounts ("BVSA") and General Account ("GA"). Upon review, it was found that there is some diversity in practice among industry with three primary methods identified: hereafter referred to as Market Value Offsetting IMR Method and Market Value SSAP 25 Method, and Book Value Method. It is important to note that despite the presence of these differing treatments, all methods do not produce gains to surplus as a result of these transfers.

It is also important to highlight that the primary difference between a company using the Book Value Method versus one of the Market Value methods is largely driven by whether the BVSA guidelines pre-approved by the state of domicile regulator, often referred to as the "Essentials of Operation" or "Memorandum of Operations" ("Memorandum"), requires such transfers for cash considerations to occur at fair value or book value. There does not appear to be diversity in accounting practice among those companies whose Memorandum require such transfers to occur at book value.

For purposes of the illustration of the three methods, some simplified assumptions have been made:

- Similar to past IMR related illustrations, tax impacts have been excluded
- Pre-transfer book value is equal to par value
- All examples include asset transfer from BVSA to GA, however the methods work similarly in both directions
- Reinvestment of cash can be assumed, however has been excluded from illustration to show the standalone impact of the transfer
- Impacts of the transfer have been retained on each balance sheet, ignoring potential offsets of reinvestment yield and/or surplus sweep from BVSA to GA, if applicable

Market Value Offsetting IMR Method

The Offsetting IMR Method can be summarized by these key features:

- Transfer from "Selling" book recorded at Market Value
- "Selling" book recognizes Realized Gain/Loss and subsequent transfer to IMR similar to third party sale
- "Purchasing" book records incoming asset at Book Value and makes an adjustment to IMR for the difference between purchase price and Book Value
- IMR activity on GA and BVSA are equal and offsetting, creating zero net impact to IMR balance
- Zero net impact to surplus

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Transfer at Loss Example

GA buys a bond from SA at MV of $90 (BV/PAR of $100) and sets up IMR to bring GA Day 1 carrying value to SA BV												
Coupon	3%											
Current yield	4%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(90)											
Initial Carrying value (Equals BV on SA) - GA	100											
IMR asset (liability) established - GA	(10)											
Coupon payment - GA		3	3	3	3	3	3	3	3	3	3	
IMR Amortization - GA		1	1	1	1	1	1	1	1	1	1	
Surplus impact - Standalone GA	-	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**40**
Cash increase for purchase price -SA	90											
Carrying value sold (Equals BV on SA)	(100)											
IMR asset (liability) established - SA	10											
IMR amortization - SA		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Surplus impact - Standalone SA	-	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(10)**
Total Surplus Impact	-	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**30**
Combined IMR Balance	-	-	-	-	-	-	-	-	-	-	-	**0**

In this example, the full economics of a sale of bond are reflected within BVSA while the amortization of the IMR adjustment within General Account alleviates the need for separate Amortized Cost valuation adjustments. Net zero impact to surplus and annual impact of interest income of the bond remain ($3 interest per year for 10 years). Net zero impact to cumulative IMR.

Transfer at Gain Example

GA buys a bond from SA at MV of $110 (BV/PAR of $100) and sets up IMR to bring GA Day 1 carrying value to SA BV												
Coupon	4%											
Current yield	3%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(110)											
Initial Carrying value (Equals BV on SA) - GA	100											
IMR asset (liability) established - GA	10											
Coupon payment - GA		4	4	4	4	4	4	4	4	4	4	
IMR Amortization - GA		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Surplus impact - Standalone GA	-	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**30**
Cash increase for purchase price -SA	110											
Carrying value sold (Equals BV on SA)	(100)											
IMR asset (liability) established - SA	(10)											
IMR amortization - SA		1	1	1	1	1	1	1	1	1	1	
Surplus impact - Standalone SA	-	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**10**
Total Surplus Impact	-	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**40**
Combined IMR Balance	-	-	-	-	-	-	-	-	-	-	-	**0**

Similar impacts for gain example as were illustrated in the loss example.

Transfer at Gain and Subsequent Sale to Third Party Example

GA buys a bond from SA at MV of $110 (BV/PAR of $100) and subsequently sells to third part at MV of $107 on Day 1 of Year 4												
Coupon	4%											
Current yield	3%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash activity -GA	(110)				107							
Initial Carrying value (Equals BV on SA) - GA	100				(100)							
IMR asset (liability) established - GA	10				(7)							
Coupon payment - GA		4	4	4								
IMR Amortization Transaction 1- GA		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
IMR Amortization Transaction 2- GA					1	1	1	1	1	1	1	
Surplus impact - Standalone GA	**-**	**3**	**3**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**
Cash increase for purchase price -SA	110											
Carrying value sold (Equals BV on SA)	(100)											
IMR asset (liability) established - SA	(10)											
IMR amortization - SA		1	1	1	1	1	1	1	1	1	1	
Surplus impact - Standalone SA	**-**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**10**
Total Surplus Impact	**-**	**4**	**4**	**4**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**19**
Combined IMR Balance	**0**	**0**	**0**	**0**	**6**	**5**	**4**	**3**	**2**	**1**	**-**	**0**

IMR and IMR amortization on GA and BVSA are equal and offsetting over the first three years after the transfer. The sale to the third party on Day one of year four triggers a realized gain on GA and subsequent transfer of that gain to IMR. Prior to sale to third party the company has zero net impact to surplus. Upon sale to third party, the impacts to IMR and surplus are consistent with third party transaction accounting.

Market Value SSAP 25 Method

The SSAP 25 Method can be summarized by these key features:

- Transfer from "Selling" book recorded at Market Value
- "Purchasing" book records asset at Market Value and records applicable amortized cost valuation adjustments over the term to maturity
- Differing Treatment for Gains vs Losses
    - Gains are immediately offset by a SSAP 25 adjustment in the GA book (the "parent" level)
    - Losses are not subject to SSAP 25 adjustment and applicable losses are immediately subject to IMR treatment
- Zero net impact to surplus

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Transfer at Loss Example

GA buys a bond from SA at MV of $90 (BV/PAR of $100) and sets up IMR offset SA Loss												
Coupon	3%											
Current yield	4%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(90)											
Initial Carrying value (MV) - GA	90											
Coupon payment - GA		3	3	3	3	3	3	3	3	3	3	
Amortized Cost Carrying Value Adjustment		1	1	1	1	1	1	1	1	1	1	
Surplus impact - Standalone GA	**-**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**40**
Cash increase for purchase price -SA	90											
Carrying value sold (Equals BV on SA)	(100)											
IMR asset (liability) established - SA	10											
IMR amortization - SA		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Surplus impact - Standalone SA	**-**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(10)**
Total Surplus Impact	**-**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**30**
Combined IMR Balance	**(10)**	**(9)**	**(8)**	**(7)**	**(6)**	**(5)**	**(4)**	**(3)**	**(2)**	**(1)**	**-**	

In this example, the transaction is recorded at Market Value on both BVSA and GA and the full economics of a sale of bond are reflected on each book, respectively. Net zero impact to surplus and annual impact of interest income of the bond remain ($3 interest per year for 10 years). Day 1 Net impact to IMR, which amortizes over the remaining years to maturity.

Transfer at Gain Example

GA buys a bond from SA at MV of $110 (BV/PAR of $100) and sets up SSAP 25 Adjustment to defer SA Gain												
Coupon	4%											
Current yield	3%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(110)											
Initial Carrying value - GA	110											
SSAP 25 Adjustment - Deferred Liability Acct	(10)											
Coupon payment - GA		4	4	4	4	4	4	4	4	4	4	
Amortized Cost Carrying Value Adjustment		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
SSAP 25 Carrying Value Offset											10	
Surplus impact - Standalone GA	**(10)**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**13**	**30**
Cash increase for purchase price -SA	110											
Carrying value sold (Equals BV on SA)	(100)											
IMR asset (liability) established - SA												
IMR amortization - SA												
Surplus impact - Standalone SA	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10**
Total Surplus Impact	**-**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**13**	**40**
Combined IMR Balance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	

The day one transaction is recorded at Market Value on both BVSA and GA. A SSAP 25 adjustment is recorded in the GA to offset the transfer gain reported in the BVSA. The BV of the bond amortizes to par value over the term to maturity and the SSAP 25 deferral unwinds at time of maturity. In this example, there is no transfer to IMR.

Transfer at Gain and Subsequent Sale to Third Party Example

GA buys a bond from SA at MV of $110 (BV/PAR of $100) and subsequently sells to third party at MV of $107 on Day 1 of Year 4												
Coupon	4%											
Current yield	3%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(110)				107							
Initial Carrying value - GA	110				(107)							
SSAP 25 Adjustment - Deferred Liability Acct	(10)				10							
Coupon payment - GA		4	4	4	-	-	-	-	-	-	-	
Amortized Cost Carrying Value Adjustment		(1)	(1)	(1)	-	-	-	-	-	-	-	
SSAP 25 Offset upon sale or maturity					-	-	-	-	-	-	-	
Surplus impact - Standalone GA	**(10)**	**3**	**3**	**3**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**9**
Cash increase for purchase price -SA	110											
Carrying value sold (Equals BV on SA)	(100)											
IMR asset (liability) established - SA					(10)							
IMR amortization - SA					1.4	1.4	1.4	1.4	1.4	1.4	1.4	
Surplus impact - Standalone SA	**10**	**-**	**-**	**-**	**(8.6)**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**10**
Total Surplus Impact	**-**	**3**	**3**	**3**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**19**
Combined IMR Balance	-	-	-	-	8.6	7.1	5.7	4.3	2.9	1.4	-	

The transaction follows the above Gain example until such time as the asset is then sold to a third party. Upon sale to third party, the SSAP 25 adjustment of $10 on GA is reversed and a $10 transfer to IMR is recorded on the BVSA. IMR is amortized over the remaining maturity of the sold bond.

Book Value Method

The Book Value Method can be summarized by these key features:

- Transfer recorded at Book Value for both "Selling" book and "Purchasing" book
- Zero net impact to surplus
- Zero net impact to IMR

Transfer Example

GA buys a bond from SA at BV of $100 (BV/PAR of $100) with MV of $90												
Coupon	3%											
Current yield	4%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(100)											
Initial Carrying value (MV) - GA	100											
Coupon payment - GA		3	3	3	3	3	3	3	3	3	3	
Surplus impact - Standalone GA	**-**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**30**
Cash increase for purchase price -SA	100											
Carrying value sold (Equals BV on SA)	(100)											
Surplus impact - Standalone SA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Surplus Impact	**-**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**30**
Combined IMR Balance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	

In this example, the transaction is recorded at Book Value on both BVSA and GA. Net zero impact to surplus and annual impact of interest income of the bond remain ($3 interest per year for 10 years). No transfers to IMR.

Transfer and Subsequent Sale to Third Party Example

GA buys a bond from SA at BV of $100 (BV/PAR of $100) and MV of $110 and subsequently sells to third party at MV of $107 on Day 1 of Year 4												
Coupon	4%											
Current yield	3%											
Years to maturity	10											
	Day 1	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**Cumulative**
Cash (decrease) for purchase price -GA	(100)				107							
Initial Carrying value - GA	100				(100)							
IMR asset (liability) established - GA	-				(7)							
IMR amortization - GA		4	4	4								
IMR amortization - GA					1	1	1	1	1	1	1	
Surplus impact - Standalone GA	**-**	**4**	**4**	**4**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**19**
Cash increase for purchase price -SA	100											
Carrying value sold (Equals BV on SA)	(100)											
Surplus impact - Standalone SA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Surplus Impact	**-**	**4**	**4**	**4**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**19**
Combined IMR Balance	-	-	-	-	6	5	4	3	2	1	-	

The transfer between BVSA and GA produces no net gain nor IMR transfer, consistent with above example. Upon sale to third party the book holding the asset records a realized gain, that gain is subsequently deferred via IMR, and IMR is amortized over the remaining maturity of the sold bond.

Additional illustrations can be provided should there be scenarios as yet not covered by the above illustrations. We welcome any comments and/or questions. ACLI next steps are to socialize this more broadly with the intent to craft an industry recommendation for a transfer accounting standard.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1b1-comments/03-acli_comment_letter_sapwg_2024-10_110724.docx



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November 4, 2024

Mr. Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
110 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: 2024-15 – ALM Derivatives

Dear Mr. Bruggeman:

The ACLI appreciates the opportunity to comment on the exposure referred to above that was released for comment by SAPWG on August 13, 2024.

We support the development of new statutory accounting guidance for interest-rate hedging derivatives that do not qualify for hedge accounting under SSAP No. 86—Derivatives, but that are used for asset-liability management (ALM), also referred to as “ALM Hedges”. ACLI is very appreciative of the on-going dialogue with SAPWG and the IMR Ad Hoc Working Group and stands ready to continue working with the NAIC on this initiative.

Companies manage ALM programs to mitigate reinvestment, guarantee, and disintermediation risks, and to manage asset portfolios within limited ranges around a liability target duration. The new statutory accounting guidance is intended for derivative transactions that alter the interest rate characteristics of assets/liabilities under these types of risk mitigation programs. More specifically, “macro-hedging” ALM programs hedge risks that are often off-balance sheet risks given the “amortized cost” nature of statutory accounting, and therefore hedge accounting frameworks do not address this type of hedging construct. As discussed in our white paper “Derivatives and Hedging with Life Insurance” (included as Appendix I), this is because the duration and convexity of assets and liabilities may differ. When interest rates change, asset and liability durations may change by different amounts, making it nearly impossible to maintain the tight effectiveness assessment corridor requirements as the measurement criteria do not include metrics commonly used in these programs (e.g., duration). As a result, economically effective “macro-hedges” are generally considered hedges and carried at fair value, which misstates insurer solvency by causing surplus volatility or worse, can disincentivize prudent risk management. As further discussed in Appendix I, there is a critical need for developing appropriate accounting guidance.

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Within the exposure, NAIC staff has identified several items for further discussion:

2) If further development / consideration of guidance is supported, the following items are noted for discussion:

a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.
b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.
c. Macro-limits on admittable net deferred losses (reported as assets) and other "soft" assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)
d. Timeframes over which deferred items are amortized into income.
e. Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)

The ACLI previously provided a detailed presentation entitled "ACLI Derivative IMR Solution Proposal" ("ACLI Solution," included as Appendix II) to the IMR Ad Hoc Working Group. Discussions of the ACLI solution at the NAIC Ad Hoc IMR WG were the impetus for this exposure. The solution addresses many of the exposure's components and ACLI would appreciate the opportunity to present to the full SAPWG membership and any additional interested regulators.

Additionally, the ACLI would like to provide specific comments regarding the admittance limitations identified in discussion points 2b and 2c. Although one of the methods within the ACLI Solution includes accounting which does not utilize the IMR, discussion of accounting treatment revisions for ALM Hedging arose within the context of derivatives and IMR. Therefore, our comments start with the "Definition of IMR" developed by the IMR Ad Hoc Working Group:

> *IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin) and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).*
>
> *IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).*
>
> *Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.*

This definition is part of a broader document (see attached Appendix III) that provides foundational principles for the NAIC's statutory accounting framework.

As the document and definition of IMR states: fixed income investment assumptions can be more easily revised, that is “unlocked,” when the investments are sold/purchased. Statutory reserve liability assumptions typically are not revised. Therefore, to avoid situations in which transitory interest rate related realized gains/losses caused inaccurate solvency reflections (which could disguise an insurer’s true ability to pay claims), the IMR valuation adjustment was developed. Appendix III provides detailed examples in which this could occur. The IMR also remains a vital element of the statutory accounting framework and was incorporated in the methodology within other evolutions such as Principle-Based Reserving (PBR) and Asset Adequacy Testing (AAT).

The IMR is not an intangible asset, it is a valuation adjustment to reflect the company’s true solvency position under statutory accounting. Therefore, equating negative IMR to an asset (tangible or intangible) with claims paying ability, is not logical or appropriate. Following this, imposing any limit on admittance would misconstrue an insurer’s true solvency and would equate to a limit on unrealized losses on fixed income instruments more broadly, such as bonds where the unrealized losses are embedded within their amortized cost valuation; contrary to the purpose of the IMR and consistent valuation of assets and liabilities.

ACLI understands regulators may wish to separate ALM derivatives from IMR (both for recording unrealized during their lives and for recording any applicable realized gains/losses). However, ACLI emphasizes, in light of the previous, that:

1. Fixed income ALM hedges can be used to alter the interest rate characteristics of assets and/or liabilities, and therefore are another method of “unlocking” the fixed assumptions. Whether ALM hedge realized gains/losses are included in the IMR or a separate valuation adjustment, they will be theoretically aligned and maintain the intent of the IMR (see the definition of IMR discussed above); and
2. Any fixed income hedge unrealized gains/losses are not intangible assets. They represent the offset to the valuation of the derivative itself (the contract asset/liability) and equate to the value needed to close (settle) the derivative contract with the counterparty.

Any limits (or potential subsequent non-admittance) on these components would in fact equate to a limit on ALM hedging programs themselves, disincentivizing insurers from engaging in vital, prudent, fixed income hedging strategies. As discussed in Appendix I and II, ALM hedges are used to mitigate reinvestment, guarantee, and disintermediation risks, as well as managing asset portfolios within limited ranges around a liability target duration, all of which are shared goals between regulators and insurers.

Further limiting hedging programs through statutory accounting guidance creates significant regulatory redundancies given other existing, effective regulatory protections:

1. From a state perspective, insurer hedging programs are limited under individual state laws and insurer DUPs, such as the type(s) of derivative programs and/or derivative contract(s). Insurers are also prohibited from speculative derivatives.

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2. From a federal perspective, most standard US agreements with derivative counterparties also require derivative trades to be collateralized through margin requirements.[1] Collateral agreements ensure each counterparty (both the insurer and the institution on the other side of the derivative) are able to financially fulfill the derivative contract (ie., pay the amount owed for the derivative's fair value) and/or reduce default risks incorporated in the contract for either party. In this case, any limit on the "valuation offset" is overly punitive when the insurer is legally required to post collateral to the counterparty.

Therefore, an aggregate cap for IMR and/or ALM derivatives is not appropriate, and it is not logical to call them intangible assets that cannot be used to pay claims. Rather, "negative" or "asset" valuation adjustments are simply explicitly shown on the balance sheet, whereas other unrealized losses are embedded in their amortized cost carrying values (i.e., bonds), both of which are required for consistent valuation of assets and liabilities so surplus properly reflects an insurers claims paying ability.

Turning to the macro cap on "soft assets," it is difficult to group these items as one category given their unique characteristics and purpose within the statutory accounting framework. Prudent business and risk decisions should not be disincentivized by the presence of completely unrelated economically viable assets or valuation adjustments on a company's balance sheet. To view these "soft assets" or intangibles in isolation from their broader purpose is also not appropriate. The NAIC's framework is an "amortized cost framework" with appropriate embedded conservatism, not a liquidation basis of accounting, for both assets and liabilities.

Deferred Tax Assets (DTAs) have appropriate conservatism by limiting reversals to 3-years as well as limiting carryback and carryforward potential. Further, DTAs represent real economic value to an insurer, and in fact does help pay claims by way of realizing tax benefits (i.e., reduction in tax payments).

Goodwill generally represents the difference between the cost of acquiring an entity and the reporting entity's share of the book value of the acquired entity. Within the acquisition, components of Goodwill could represent things of value such as costs acquiring a fully amortized building or an asset manager. Asset managers generally have limited balance sheet assets where its value is attributable to asset manager fees and directly proportional to assets under management (i.e., a not balance sheet metric).

Unlike US GAAP or IFRS, where Goodwill is not amortized because it is considered to have an indefinite useful life, until it is determined to be impaired, under statutory accounting Goodwill is conservatively amortized over a period not to exceed 10-years, as well as being subject to impairment testing.

DTAs and Goodwill also have percentage of surplus limitations, which serves as another layer of conservativism.

The common theme among all of these valuation adjustments and/or assets is that they either adjust values for consistent valuation of assets and liabilities to provide an accurate picture of claims paying ability or represent real economic value that help insurers pay claims. They are also all unique, with

[1] Mandated by the Dodd Frank Act and related SEC and CFTC regulatory requirements.

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distinct purpose in the statutory accounting framework, so an aggregate limiting cap across other completely unrelated economically viable assets or valuation adjustments on a company's balance sheet is inappropriate.

Lastly, ACLI proposes a few brief comments on exposure item 2e regarding the extent of application in industry. From conversations with our members, use of SSAP 108 is limited due to its narrow scope (variable annuity guarantees only) and the relative rigor of guardrails that must be satisfied to implement (resource intensive, so the benefit must be substantial to justify the effort). However, we understand that the population of insurers who engage in macro-hedging programs is significantly larger and using the Negative IMR disclosures to gauge the population is not truly representative for several reasons, such as:

1. The interim solution did not allow insurers to engage in new hedging programs or to include any hedging programs that did not previously include realized gains within the IMR. There could be insurers who have had to adjust or start programs as the interest rate environment evolved, which may have disqualified them from using this guidance and therefore including their programs in the disclosure.
2. There is diversity in practice in insurer's interpretation of SSAP 86; not all insurers included gains/losses from interest rate related macro-hedging programs in the IMR, which also would have precluded them from using the interim guidance and included balances in the disclosure. Ensuring clear ALM hedging guidance would reduce diversity in practice and would likely lead to more insurers clearly identifying these programs in any future required disclosures.

Once again, the ACLI appreciates the opportunity to provide comments and looks forward to continued dialogue and collaboration on new statutory guidance for ALM Hedges. If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,



Mike Monahan
ACLI

Cc: Julie Gann, Assistant Director - Solvency Policy, Robin Marcotte, Senior Manager II, Accounting Policy, Jake Stultz, Manager II – Accounting Policy, Jason Farr Senior SCA Valuation and Accounting Policy Advisor, and Wil Oden, Senior Technical Accounting Policy Advisor

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Appendix I

Derivatives and Hedging Under Life Insurance and the NAIC's Statutory Framework

The intent of this document is to offer insights into why life insurance companies have derivative overlays on their investment portfolios to achieve appropriate results under prudent risk or asset liability management (ALM) practices. Strictly adhering to covering the liability with cash bonds through either buy and hold strategies or more dynamic portfolio rebalancing strategies are often insufficient to achieve these same results. It also offers insights into why existing derivative accounting and hedge accounting rules under US GAAP and US statutory accounting (which has incorporated many US GAAP concepts) fall short in appropriately addressing insurer and regulator needs in the broader US statutory framework for the life insurance sector. It further highlights how this framework gap can inadvertently incentivize increased risk-taking in the life insurance sector. This document further discusses the special and prudent ALM & hedging needs of life insurance companies, the marking to market of derivatives under the US statutory framework, and the appropriate lens for assessing effectiveness of derivative hedging programs under the life insurance sector's prudent risk and ALM practices.

To fully understand the proper context of this document, it should be read in conjunction with the "Definition and Purpose of the Interest Maintenance Reserve (IMR)" document which provides grounding in core concepts of the US statutory framework, which includes the IMR. That context provides a basis for understanding Appendix 3 of that document (IMR in the context of Derivatives Hedging Transactions), while this document substantially expands upon those concepts. For convenience, that example is included here as Appendix I.

A Glossary of terms commonly used when discussing these strategies and/or used throughout this document is included in Appendix II. Glossary terms used throughout the document are in italics.

Background

As detailed in the aforementioned "Definition and Purpose of the Interest Maintenance Reserve (IMR)" document, the US statutory framework is generally an "amortized cost framework," where most fixed income investments and insurance liabilities are valued at amortized cost or with assumptions locked at their inception, respectively. The US GAAP framework, on the other hand, largely defaults to a market value or market consistent framework. The US statutory accounting framework is built on a modified US GAAP foundation. However, in the case of the derivative accounting guidance, the default market value carrying value was not modified, creating a mismatch in the accounting recognition of derivatives compared to the assets and liabilities they hedge.

Most life insurance and annuity products have complex ALM profiles that do not lend themselves to simple cash-flow-matching format of ALM using traditional fixed income instruments. Our liabilities are often very long dated (often for 40+ years), and frequently have embedded optionality for policyholders to withdraw their cash values at book or minimum crediting rate guarantees. These long-dated cash flows and embedded options create complex *duration* and *convexity* profiles. At the same time, the universe of fixed income assets is concentrated in maturities of 10 years or less, with very limited availability beyond the 30-year horizon or beyond.

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A subset of the overall derivative accounting guidance, hedge accounting allows the derivatives to be accounted for in the same manner as the hedged item(s), however, there are additional concerns with the US GAAP based hedge accounting regime for certain unique life insurance sector derivative hedging programs as well. Current guidance makes it extremely difficult to achieve hedge accounting for *duration* portfolio hedging. This creates significant problems for those responsibly trying to limit *duration* and *convexity* risks:

1. While replication rules can be used to correct some of the *duration* issues, there is significant burden and cost associated with each replication derivative transaction. This makes the activity inefficient and, in some cases, cost prohibitive and/or limited under state law.
2. There is no capacity under these rules to include options or dynamic replication strategies necessary to manage the net *convexity* profile of the portfolios.
3. There are some allowances for "portfolio" or cash flow hedges or certain instances of anticipatory bond hedging. But there is often burden and difficulty in achieving this treatment in many cases, differing audit firm opinions on qualifying strategies, and these strategies are not always available for liability hedging.

If alignment of the interest rate derivatives used for ALM with the investments and liabilities they support is not upheld, the framework creates disincentives for insurers to engage in prudent and comprehensive ALM and risk management. Consistent accounting through the balance sheet and income statements would create a much more appropriate view of insurers' surplus and solvency.

The US GAAP hedge accounting framework (and as a result the US Statutory hedge accounting framework) is largely focused on hedges of identified current or future balance sheet and income statement items (i.e., bonds, cash flows, raw materials, etc.), however, the life insurance industry has additional considerations that must be addressed. The long *duration* nature of our products leads to additional risks, such as those from interest rates, which must be addressed and do not align with the existing hedge accounting frameworks. However, the ability to hedge these risks and amortize resultant realized gains and losses through the IMR will allow insurers to manage the risk in a manner consistent with the statutory framework.

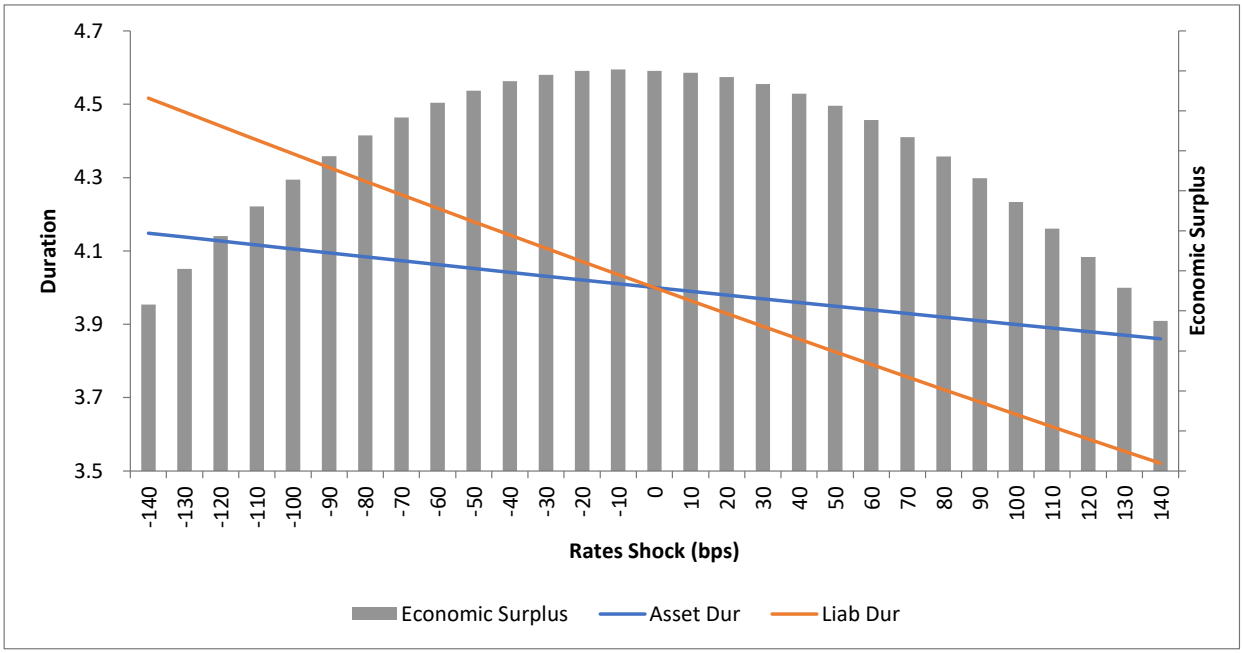
Further, if hedge accounting rules are aligned to appropriately allow for the hedged item to be not limited to hedges of an asset or portfolio of assets, but rather the economic profile of the cash assets net of liabilities (*duration*), this would allow for effectiveness testing used in any economic framework where one can illustrate that the hedges move in a way that is offsetting the movement of the economic value of the rest of the hedged item.

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Duration Risk Management of Life Insurance Companies

Let's first look at the following hypothetical example that life insurers face with regards to asset *duration* risk and how they manage that risk through asset liability management.

This chart



shows where the asset *duration* (blue line) equals the liability *duration* (orange line) of approximately 4 at today's interest rate (0 on the horizontal axis). The sensitivity of *duration* to interest rates is referred to as *convexity* and the different slopes of the asset *duration* and liability *duration* lines show that the asset and liability convexities differ. Liability *convexity* is greater than asset *convexity*, which is often the case with life insurance and annuity products. In this example, if interest rates go up by 100 bps, liability *duration* is approximately 3.7 while asset *duration* is approximately 4.0. Likewise, if interest rates go down by 100 bps, liability *duration* is approximately 4.4, while asset *duration* is approximately 4.1. It is virtually impossible, and therefore impractical, for insurers to attempt to be perfectly cash flow matched in any particular interest rate scenario. Managing *convexity* is thus necessary to address this potential change in exposure as interest rates move.

As noted in the 2002 report to E-Committee, there are instances where the statutory framework (for which IMR was developed) gave rise to inappropriate results. The following is pertinent here:

> *Changes in values due to interest rate swings were recognized inconsistently on the asset and liability sides of the balance sheet. Liabilities are valued using interest rates fixed at issue while some assets may be valued using current interest rates through trading activity.*
>
> *When the assets are poorly matched to the liabilities, a significant adverse swing in the interest rates will reduce financial strength and could lead to insolvency even though the balance sheet value of the assets exceeds the balance sheet value of the liabilities. Using long term assets to back demand liabilities is dangerous if there is a significant upswing in interest rates. In addition, individual insurance premiums are received and invested for many years after the issue date on which the reserve interest*

rate is determined, creating a potential for inadequate yields that is not reflected in standard accounting procedures.

What the above example shows is an increase or decrease in interest rates can turn *duration* matched investments and liabilities into a scenario with other concerns that do not show up timely or appropriately under statutory accounting.

An insurance company, in these instances, could certainly address the 100 bp increases (decreases) by selling (buying) long *duration* securities and buying (selling) short *duration* securities, to match the *duration* of liabilities. In such a situation, the investment gains and losses would appropriately be IMR eligible, as liabilities are valued using interest rates fixed at issue while some assets are now valued using current interest rates through trading activity. However, it is not always practical to buy and sell securities to achieve this impact (e.g., availability, tax costs, bid/ask spread, etc.). More practically, the *duration* of the portfolio can be changed via more liquid derivatives instruments to protect against these same risks, in a more efficient way. This is why we believe the following was noted in the 2002 Report to E-Committee.

Realized gains and losses on derivatives investments, which alter the interest rate characteristics of assets/liabilities, also are allocated to the IMR and are to be amortized into income over the life of the associated assets/liabilities.

The E-Committee report only specifies hedging (derivatives which alter the interest rate characteristics of assets/liabilities) but does not distinguish that IMR eligibility is appropriate solely for derivatives that are hedge effective under accounting standards. This is also why we believe the 2002 Report to E-Committee called for symmetrical treatment for losses as well as gains.

Let's explore the implications of interest rate shocks upward and downward, respectively.

Due to the differences in *convexity* of assets and liabilities, the example shows how an interest rate spike can change a perfectly *duration* matched investment portfolio into one that is longer than the liabilities. As the E-Committee report's authors noted, it can be dangerous to back demand liabilities with long assets during an upswing in interest rates, as liabilities can become shorter in *duration* and more prone to disintermediation risk.

Similarly, the example shows how a downward interest rate move can also change a *duration* matched investment portfolio into one that is shorter than the liabilities. Individual insurance premiums can be received and invested for many years after the issue date on which the reserve interest rate is determined, creating a potential for investing in inadequate yields – a risk which is not reflected in standard accounting procedures. This same phenomenon also occurs when the insurance liabilities extend beyond 30 years, typically beyond US investable asset maturities.

Therefore, this example and subsequent discussion is intended to highlight several things:

1) The *duration* mismatch created by an interest rate shock creates increased risk, whether through reinvestment risk or disintermediation risk.

2) Why life insurance companies have developed sophisticated ALM practices to manage *duration* risk to ensure policyowner contractual obligations can be fulfilled.
3) Why it is important for the balance sheet to properly reflect these risk mitigation strategies and why not reflecting realizations from these risk management strategies in IMR, including for bond and derivative losses, can work to disincentivize prudent risk management practices, and increase life insurer risk, by requiring their immediate recognition.

Hedging *Duration* Risk and Hedge Accounting

The US statutory framework is fundamentally different than the US GAAP framework. US GAAP tends to focus more on earnings and market valuations, while US Statutory focuses on long-term solvency and utilizes amortized cost. US statutory accounting adopted much of US GAAP's derivative accounting framework, which is not aligned with and does not fully reflect the inherent nature of the life insurance industry and its policyholder liabilities. Therefore, the gap of what is needed from a regulatory accounting context is still significant considering the sophisticated ALM practices life insurance companies employ to manage *duration* risk so that they can fulfil policy contract liabilities.

To illustrate the difference between a company utilizing US GAAP to hedge risk, let's first walk through an example.

In some instances, the hedge accounting rules work well under US GAAP. Let's look at an example of ABC Company which makes widgets for the automotive industry. The widgets are each molded from 8 grams of 100% copper. ABC company's warehouse can only hold one month's supply of copper.

ABC Company recently signed a contract with XYZ Automotive to provide 100 widgets at $10 each for each of the next 12 months. ABC Company will therefore need to purchase 80 grams of copper on the 1st of each month for the next 12 months at the prevailing spot rate (price). At today's price of $1 per gram, ABC's expected profit margin is 20% or $200 per month. However, if the price of copper goes up, the company's resulting profit would be different than expected (the target profit). If the price went up high enough the company might not even be able to fulfil their obligation to XYZ Automotive.

ABC Company's management is aware that the market for copper can be highly volatile, and their risk management committee decided to lock in the price of copper over the next 12 months to hedge against the risk that the price of copper increases and they will be making widgets at a loss. As such, ABC Company entered into forward/future derivative contracts for the 1st of each month for the next 12 months that lock in today's price of copper at $1 per gram over the next 12 months for their anticipated copper needs.

With these derivative hedging transactions, ABC has guaranteed a 20% profit margin on the contract with XYZ Automotive over the next 12 months. If copper prices double or fall by half, ABC Company's profit margin is not impacted. Any gain (loss) on the derivative contracts is offset by an equal economic loss (gain) on the copper purchase price.

Additionally, because ABC Company does not want to have non-economic and volatile earnings over the course of the next 12 months (i.e., by marking the derivatives to market through income each month), it follows the documentation requirements of US GAAP to prove hedge effectiveness (i.e., the terms match 100%). Any increase or decrease of the price of copper is offset by their derivative hedges.

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While the derivatives are still required to be marked to market under US GAAP, any gain (loss) is recognized in other comprehensive income (OCI), not earnings, until the 1st of each month, which then offsets any economic loss (gain) on the copper purchases since the initial spot rate when the contract with XYZ Automotive was affected.

While the copper widget example is one example of hedge accounting under US GAAP, and by partial extrapolation to US Statutory Accounting, US GAAP only touches on the fringes of dynamic and portfolio hedging strategies. Let's explore some of the differences in the *duration* management insurance companies employ when compared to the copper widget example.

1) In life insurance, a change in interest rates can change the *duration* target being hedged. In the copper widget example, a change in copper prices does not change the target (i.e., the copper requirement is determined independently from the price) whereas in life insurance, any change in interest rates can change the risk that needs to be hedged due to the difference in *convexity* of the assets and liabilities. There can be less *duration* to hedge if interest rates rise and more reinvestment risk to hedge if interest rates decline.
2) In the copper widget example, it is easy to match the critical terms for each linear transaction, even if 100% of the transactions are not hedged, and prove 100% hedge effectiveness. Hedging programs which manage *duration* risk may relate to significantly large portfolio(s) of assets supporting large portfolio(s) of insurance contract liabilities, and often the same one-to-one relation of the hedging derivative and the hedged item does not exist. Often, the components of each portfolio are not static, occasionally beyond the control of the insurer, and many times they require ongoing balancing and adjustments. Therefore, these hedging programs must be dynamic.
3) In the copper widget example, under US GAAP, it may be appropriate to meet the required of 80-125% fair value change assessment requirement to keep the derivative fair value changes from impacting earnings. US GAAP is primarily an earnings-based accounting regime, and there is less focus on solvency. The statutory framework, on the other hand, focuses on solvency and the proper reflection of the balance sheet includes the utilization of IMR. As derivatives can be efficient substitutes for the selling and buying of bonds (which are themselves IMR eligible), dynamic interest rate hedging strategies that mitigate ALM risks in the service of meeting policyholder obligations needs to be a component of the framework.

That focus that assesses effectiveness in the context of life insurance makes more sense in the following examples, which illustrate simplified common life insurer hedging programs and further detail why these programs are vital.

Example: *Duration* gap risk reduction

Consider a product such as long-term care insurance or life insurance, where a company expects fixed premium payments each year of a given contract, and in return agrees to pay benefits in the future, contingent on realization of underwritten risk, upon which premium payments cease. Most investable assets in the US mature well within 30 years of issuance, while insurance liability benefits can extend significantly beyond that time horizon, which can create reinvestment risk for both coupons and principal payments. The premium dollars and bond coupons in future years will be reinvested at then prevailing yields. This can result in more interest rate (or *duration*) risk in the portfolio backing such a liability than what the insurer can cover with a portfolio of cash bonds alone. This is typically referred to as a *duration* gap between the assets and liabilities. The use of interest rate derivatives can help to hedge or reduce this risk.

For simplicity, in the below example, the book value of assets is set equal to the reserve for a block of liabilities. Assume the company invests in a long *duration* bond portfolio with a *duration* of 12.0 to back liabilities with a *duration* of 20.0. *DV01* is a measure of the mark-to-market sensitivity for a 1 basis point (0.01% or 1 bp) change in interest rates. Using this bond only investment example, there remains an unhedged *DV01* risk of -$80,000 for every 1 bp move in rates. Ignoring *convexity* impacts, a 1% decline in interest rates could result in losing surplus equal to nearly 8% of the reserves.

However, the insurance company can hedge or reduce its *duration* gap using derivatives. For instance, it could use Treasury bond futures, interest rate swaps, or Treasury bond forwards to synthetically add *duration* to the bond portfolio. In this example, let's assume the company hedges some of the risk and adds $60,000 of *DV01* sensitivity to the portfolio. If interest rates rise or fall, the total value of the assets will move much more closely to the liabilities, and surplus volatility is significantly reduced. The below chart illustrates the various outcomes of these scenarios.

Unhedged initial position (t=0):

	(A) Assets SV (Stat BS)	(B) Asset MV	(C) Asset Duration	(D) Asset DV01	(E) Liability SV (Reserves, Stat BS)	(F) Liability MV (Reserves)	(G) Liability Duration	(H) Liability DV01	(I=D-H) Surplus DV01
Bonds	$100mm	$100mm	12.0	$120,000	$100mm	$100mm	20.0	$200,000	-$80,000

Hedged initial position (t=0):

	(A) Assets SV (Stat BS)	(B) Asset MV	(C) Asset Duration	(D) Asset DV01	(E) Liability SV (Reserves, Stat BS)	(F) Liability MV (Reserves)	(G) Liability Duration	(H) Liability DV01	(I=D-H) Surplus DV01
Bonds	$100mm	$100mm	12.0	$120,000	$100mm	$100mm	20.0	$200,000	
Hedges	$0mm	$0mm	6.0*	$60,000					
Total	$100mm	$100mm	18.0	$180,000	$100mm	$100mm	20.0	$200,000	-$20,000

Note: Example ignores convexity for simplicity. Bond duration is consistent with that of the Bloomberg Agg Long Corporate index as of 10/31/2023. Even if considering only 25 year and longer maturities in this index, the duration would only get to about 14.5 units.

* Hedge duration included based on a $100mm notional for ease of understanding.

Potential scenarios (t=1) at MV (Economic view):

	Rates -1%	Rates unch.	Rates +1%
Bonds	$112mm	$100mm	$88mm
Hedges	$6mm	$0mm	-$6mm
Total Assets**	$118mm	$100mm	$82mm
Reserves	$120mm	$100mm	$80mm
Surplus Change (No Hedge)	-$8mm	$0mm	$8mm
Surplus Change (With Hedge)	-$2mm	$0mm	$2mm

Potential scenarios (t=1) at SV (Statutory view):

	Rates -1%	Rates unch.	Rates +1%
Bonds	$100mm	$100mm	$100mm
Hedges	$6mm	$0mm	-$6mm
Total Assets**	$106mm	$100mm	$94mm
Reserves	$100mm	$100mm	$100mm
URCGL (Surplus)	$6mm	$0mm	-$6mm

** For simplicity, hedges are considered part of Assets regardless of gain or loss position.

In this approach, the company is reducing the mismatches between identified assets and liabilities. There is not a requirement to offset all mismatch risk, just that some of the risk is offset on a net basis. Derivatives for a given strategy would be considered on a net basis in terms of the *duration* metric that is offset.

Example: Pension Risk Transfer (PRT) Repositioning

Consider a PRT transaction where an up-front asset portfolio is received from the client on 1/1 consisting of $1B of cash and short-term bonds (portfolio asset *duration* = 1, average interest rate = 5%). The liabilities have a *duration* of 10 (average effective interest rate = 4%), so the asset portfolio must be repositioned. The liability *duration* calculation has been simplified for the purposes of this example. It will take ~12 months to reposition the asset portfolio for various reasons (e.g., availability of desired bond issuers, maturities, credit qualities, etc.). For simplicity, the example assumes the initial asset portfolio is sold on day-365 (12/31).

On 1/1 (and throughout the following 12 months), significant bond reinvestment risk exists. For example, if (on 12/31) market interest rates for planned bond purchases drop to 1%, then eventually there will be insufficient assets to pay all policyholder liabilities. However, this risk can be hedged with 12-month forwards; so, when interest rates drop, the derivative increases in value thereby eliminating the yield and *duration* deficit of the assets vs. liabilities (which essentially locks in the positive yield difference of assets vs. liabilities on 1/1). Alternatively, if interest rates rise, the derivatives would generate a loss, but that loss would be offset by the ability to invest in higher yielding assets.

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In combination, the bonds and derivatives are intended to earn the yield needed to support the liabilities. Without these transactions, the total yield on assets would not be aligned with the presumed yield required to meet product obligations over the entire life of the product. See examples below:

Duration View (1% Change)

Unhedged initial position (t=0):

	(A) Assets SV (Stat BS)	(B) Asset MV	(C) Asset Duration	(D) Asset DV01	(E) Liability SV (Reserves, Stat BS)	(F) Liability MV (Reserves)	(G) Liability Duration	(H) Liability DV01	(I=D-H) Surplus DV01
Bonds	$1B	$1B	1.0	$100K	$1B	$1B	10.0	$1M	-$900K

Hedged initial position (t=0):

	(A) Assets SV (Stat BS)	(B) Asset MV	(C) Asset Duration	(D) Asset DV01	(E) Liability SV (Reserves, Stat BS)	(F) Liability MV (Reserves)	(G) Liability Duration	(H) Liability DV01	(I=D-H) Surplus DV01
Bonds	$1B	$1B	1.0	$100K	$1B	$1B	10.0	$1M	
Hedges	$0	$0	9.0*	$900K					
Total	$1B	$1B	10.0	$1M	$1B	$1B	10.0	$1M	$0

* Hedge duration included based on a $1B notional for ease of understanding.

Potential scenarios (t=1) at MV (Economic view):

	Rates -1%	Rates unch.	Rates +1%
Bonds	$1,010M	$1B	$990M
Hedges	$90M	$0	-$90M
Total Assets**	$1,100M	$1B	$900M
Reserves	$1,100M	$1B	$900M
Surplus Change (No Hedge)	-$90M	$0	+$90M
Surplus Change (With Hedge)	$0	$0	$0

Potential scenarios (t=1) at SV (Statutory view):

	Rates -1%	Rates unch.	Rates +1%
Bonds	$1B	$1B	$1B
Hedges	$90M	$0M	-$90M
Total Assets**	$1,190M	$1,100M	$1,010M
Reserves	$1B	$1B	$1B
URCGL (Surplus)	$90M	$0M	-$90M

** For simplicity, hedges are considered part of Assets regardless of gain or loss position.

Statutory & Yield View (1% Change)

Company will receive $1B premium in short-term bonds
After year 1, Company invests $1B in longer term bonds to support the liabilities
Short-term bond yields and to be purchased longer term bonds' current interest rates are 5% (i.e., flat yield curve)
Liability effective rate (crediting) is 4%
Company wants to hedge reinvestment risk on future bond purchases to economically lock in 5% yield
Company enters into 1 year bond forwards
Company will realize gain/loss at end of t=1 if rates change
Calculation of derivative G/L has been simplified to make example intuitive

Rates Unchanged		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	5%	Interest Income		50	50	50	50	50	50	50	50	50
Deriv G/L at t=1 (EOP)	0	IMR Amort (start BOY2)		-	-	-	-	-	-	-	-	-
		Total Income		50	50	50	50	50	50	50	50	50
		Asset Yield		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		10	10	10	10	10	10	10	10	10
		Net Yield		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Balance Sheet												
IMR				-	-	-	-	-	-	-	-	-
Surplus (Retained earnings)				10	20	30	40	50	60	70	80	90

Rates -1%		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	4%	Interest Income		40	40	40	40	40	40	40	40	40
Deriv G/L at t=1 (EOP)	90	IMR Amort (start BOY2)		10	10	10	10	10	10	10	10	10
		Total Income		50	50	50	50	50	50	50	50	50
		Asset Yield		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		10	10	10	10	10	10	10	10	10
		Net Yield		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Balance Sheet												
IMR				80	70	60	50	40	30	20	10	-
Surplus (Retained earnings)				10	20	30	40	50	60	70	80	90

Rates +1%		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	6%	Interest Income		60	60	60	60	60	60	60	60	60
Deriv G/L at t=1 (EOP)	(90)	IMR Amort (start BOY2)		(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
		Total Income		50	50	50	50	50	50	50	50	50
		Asset Yield		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		10	10	10	10	10	10	10	10	10
		Net Yield		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Balance Sheet												
IMR				(80)	(70)	(60)	(50)	(40)	(30)	(20)	(10)	-
Surplus (Retained earnings)				10	20	30	40	50	60	70	80	90

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Assume the same situation as above, and Company hedged their reinvestment risk, but was not able to defer any resulting hedge realized gains or losses to the IMR. The resulting statutory statements would appear as follows, giving a distorted view of the Company's financial position and solvency:

Rates Unchanged		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	5%	Interest Income		50	50	50	50	50	50	50	50	50
Deriv G/L at t=1 (EOP)	0	Realized G/L		-	-	-	-	-	-	-	-	-
		Total Income		50	50	50	50	50	50	50	50	50
		Asset Yield		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		10	10	10	10	10	10	10	10	10
		Net Yield		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Balance Sheet												
IMR				-	-	-	-	-	-	-	-	-
Surplus (Retained earnings)				10	20	30	40	50	60	70	80	90

Rates -1%		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	4%	Interest Income		40	40	40	40	40	40	40	40	40
Deriv G/L at t=1 (EOP)	90	Realized G/L		90	-	-	-	-	-	-	-	-
		Total Income		130	40	40	40	40	40	40	40	40
		Asset Yield		13.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		90	-	-	-	-	-	-	-	-
		Net Yield		9.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Balance Sheet												
IMR				-	-	-	-	-	-	-	-	-
Surplus (Retained earnings)				90	90	90	90	90	90	90	90	90

Rates +1%		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	6%	Interest Income		60	60	60	60	60	60	60	60	60
Deriv G/L at t=1 (EOP)	(90)	Realized G/L		(90)	-	-	-	-	-	-	-	-
		Total Income		(30)	60	60	60	60	60	60	60	60
		Asset Yield		-3.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		(70)	20	20	20	20	20	20	20	20
		Net Yield		-7.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Balance Sheet												
IMR				-	-	-	-	-	-	-	-	-
Surplus (Retained earnings)				(70)	(50)	(30)	(10)	10	30	50	70	90

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Now let's assume the same situation, but the Company did not exercise prudent risk management and did not hedge their reinvestment risk. If rates decreased 2%, the resulting statutory statements would appear as follows, and the Company may not be able to meet their policyholder obligations:

Rates -2%		End of Year	1	2	3	4	5	6	7	8	9	10
Bond Yield at t=1 (EOP)	3%	Interest Income		30	30	30	30	30	30	30	30	30
Deriv G/L at t=1 (EOP)	0	Realized G/L		-	-	-	-	-	-	-	-	-
		Total Income		30	30	30	30	30	30	30	30	30
		Asset Yield		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
		Crediting		40	40	40	40	40	40	40	40	40
		Liability Yield		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
		Net Income		(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
		Net Yield		-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Balance Sheet												
IMR				-	-	-	-	-	-	-	-	-
Surplus (Retained earnings)				(10)	(20)	(30)	(40)	(50)	(60)	(70)	(80)	(90)

Example: Single Premium Fixed Deferred Annuity (FDA)

Options and swaps are frequently used to hedge potential dis-intermediation and extension risk in insurance products. These examples are focused on the disintermediation risk in Fixed Deferred Annuities (FDA), which have an uncertain timing of potential realization of both derivative side and liability side gains or losses.

We start with a single 7-year single premium FDA product with $1,000 of initial premium and a surrender charge of 7% in the first 4-years, then grading down to 3% from years 5-7. We issue policy when the 7-year treasury rate is 4.5%, and assume a credit spread of 1%. The fixed crediting rate for the guarantee period is 4.5%.

We invest our cash in a 7-year zero coupon bond to match to maturity of the contract. To manage the embedded option inside the product, we need an out-of-the-money, American exercise, 7-year put option on a 7-year bond (with declining maturity). Because these are not readily available instruments, we instead purchase two payer swaptions: one with a 2-year maturity on 5-year swap, and one with a 5-year options on a 2-year swap to cover majority of the exposure to potential losses due to early surrenders if rates were to spike up. Because of surrender charges, we need protection that is 100-200 basis points out of the money, so we purchase options with a 6% Strike. These options cost $~14, the remaining $986 is invested in bonds.

In all the cases below, where we illustrate amortization of the IMR, we conservatively amortize it from the time of realization to contract maturity (year 8 of the projection). Also, for simplicity purposes we did not amortize the upfront cost of the option and excluded taxes and expenses.

We start by looking at what happens in the scenario where interest rates don't move – Table 1. Here the options are expected to mature worthless, and we expect to realize the loss of premium in years 2 and 5.

The point of these simplified examples is to show that timing of realization of derivatives gains and losses (even when utilizing a buy-and-hold investment strategy) varies significantly from bonds and can introduce unintentional accounting volatility if the derivatives are not IMR eligible. This example is

abstracted from real life practice, as it focuses on a single issuance cohort to illustrate how the hedges, assets and liabilities could interact and therefore overstates the ease with which one may identify excess vs expected surrenders and what assets and derivatives are related to particular liabilities (i.e. the examples assume that the surrenders do not meet the excess withdrawal rules as they focus on just a single cohort that is part of a much broader mix of cohorts). We also use a static hedge portfolio for clarity of illustration. However, in reality, an evolving going concern book of business, with a mix of issuance cohorts is managed dynamically using a variety of instruments and strategies, where the realization of the derivatives gains and losses can be even more time-mismatched then this illustration. The purpose of these examples is to illustrate the appropriateness of IMR eligibility for derivatives consistently with bonds. Separately, excess withdrawals can be addressed in the future (e.g., consistently for derivatives and bonds).

The following examples will demonstrate that it is imperative (1) to use derivatives to hedge interest rate risk (which should be a shared goal of regulators and insurers); (2) to treat derivative gains/losses in a manner consistent with gains/losses on bonds; (3) to have accounting policies that do not disincentivize hedging or risk reduction practices by introducing non-economic income and surplus volatility.

Scenario 1. Interest rates stay the same as they were at issue, no excess surrenders.

	Projection Year	T=0	1	2	3	4	5	6	7	8
	Treasury Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
	Asset Yield	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
	Surrender Value	930	972	1,016	1,061	1,121	1,184	1,250	1,320	1,422
	Bond at Fair Value	986	1,041	1,098	1,158	1,222	1,289	1,360	1,435	92
	Assets									
1	Bond Book Value	986	1,041	1,098	1,158	1,222	1,289	1,360	1,435	92
2	Market Value of derivative	14	8	4	3	1	-	-	-	-
3	Total Asset Book Value	1,000	1,049	1,102	1,161	1,223	1,289	1,360	1,435	92
	Liabilities									
4	Account Value/Reserve	1,000	1,045	1,092	1,141	1,193	1,246	1,302	1,361	0
5	IMR Liability	-	-	(6)	(5)	(4)	(8)	(5)	(3)	-
	Surplus	-	4	16	25	35	51	63	77	92
	Net Income									
6	Interest Income	-	54	57	60	64	67	71	75	79
7	IMR Amortization (Derivatives)	-	-	(1)	(1)	(1)	(3)	(3)	(3)	(3)
8	IMR Amortization (Bond)	-	-	-	-	-	-	-	-	-
9	Premium (Claim)	1,000	-	-	-	-	-	-	-	(1,422)
10	Change in Liability Reserve	(1,000)	(45)	(47)	(49)	(51)	(54)	(56)	(59)	1,361
11	G/L on Liquidated Bonds		-	-	-	-	-	-	-	-
12	Derivative Loss		0	(7)	0	0	(6)	0	0	0
13	Net Income (held FV no IMR)		9	3	11	12	7	15	16	18
14	Net Income (held FV transfer to IMR)		9	9	10	11	11	12	14	15
15	Net Income (held amt cost transfer to IMR)		9	9	10	11	11	12	14	15
16	Chg in Surplus (held FV no IMR)		4	6	10	11	12	15	16	18
17	Chg in Surplus (held FV transfer to IMR)		4	12	9	10	16	12	14	15
18	Chg in Surplus (held amt cost transfer to IMR)		9	9	10	11	11	12	14	15
19	Surplus (held FV no IMR)		4	10	20	31	43	58	74	92
20	Surplus (held FV transfer to IMR)	-	4	16	25	35	51	63	77	92
21	Surplus (held amt cost transfer to IMR)		9	18	29	40	51	63	77	92

We can see in line 13, option losses introduce income volatility in years 2 and 5 and the change in surplus on lines 16-17 show non-economic surplus volatility due to expiry (early years lower surplus) If everything else happens as expected the cost of managing the "unrealized" risk should have been amortized over the life of the product, showing a smoother emergence of surplus in line 18 and consistent with Net Income in line 15. Sections highlighted in yellow illustrate inconsistency of accounting through the balance sheet and income statement from inconsistent treatment of derivatives from the rest of the block of business, which creates confusing views of either income or surplus/solvency. Meanwhile, when derivatives are treated on a consistent basis, as highlighted in green, surplus and income emerge in the same way that is more aligned to the block's decay of risk, and emergence of profits. We see that divergence go away after year 5, in all the measures once the derivatives are off the books.

Scenario 2. Interest Rates stay as they were at issue, but we have an unexpected $500 surrender in year 4.

	Projection Year	T=0	1	2	3	4	5	6	7	8
	Treasury Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
	Asset Yield	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
	Surrender Value	930	972	1,016	1,061	1,121	656	693	731	788
	Bond at Fair Value	986	1,041	1,098	1,158	722	762	804	848	107
	Assets									
1	Bond Book Value	986	1,041	1,098	1,158	722	762	804	848	107
2	Market Value of derivative	14	8	4	3	1	-	-	-	-
3	Total Asset Book Value	1,000	1,049	1,102	1,161	723	762	804	848	107
	Liabilities									
4	Account Value/Reserve	1,000	1,045	1,092	1,141	661	690	721	754	0
5	IMR Liability	-	-	(6)	(5)	(4)	(8)	(5)	(3)	-
	Surplus	-	4	16	25	67	79	87	97	107
	Net Income									
6	Interest Income	-	54	57	60	64	40	42	44	47
7	IMR Amortization (Derivatives)	-	-	(1)	(1)	(1)	(3)	(3)	(3)	(3)
8	IMR Amortization (Bond)	-	-	-	-	-	-	-	-	-
9	Premium (Claim)	1,000	-	-	-	(500)	-	-	-	(788)
10	Change in Liability Reserve	(1,000)	(45)	(47)	(49)	481	(30)	(31)	(32)	754
11	G/L on Liquidated Bonds		-	-	-	-	-	-	-	-
12	Derivative Loss		0	(7)	0	0	(6)	0	0	0
13	Net Income (held FV no IMR)		9	3	11	44	3	11	12	13
14	Net Income (held FV transfer to IMR)		9	9	10	43	7	8	9	10
15	Net Income (held amt cost transfer to IMR)		9	9	10	43	7	8	9	10
16	Chg in Surplus (held FV no IMR)		4	6	10	43	9	11	12	13
17	Chg in Surplus (held FV transfer to IMR)		4	12	9	42	12	8	9	10
18	Chg in Surplus (held amt cost transfer to IMR)		9	9	10	43	7	8	9	10
19	Surplus (held FV no IMR)		4	10	20	63	71	82	94	107
20	Surplus (held FV transfer to IMR)	-	4	16	25	67	79	87	97	107
21	Surplus (held amt cost transfer to IMR)		9	18	29	72	79	87	97	107

In this scenario there is no gain or loss on the bonds, and the surrender charges create a windfall in year 4. But derivatives, cause unexpected income volatility in years 2 & 5, if not amortized through IMR, as illustrated in net income lines 13 (without IMR). Years 1-5, highlighted in yellow, show uneconomic

volatility and divergence between net income (lines 13 &14) and change in surplus (on lines 16 & 17) due to the inconsistent treatment of the derivatives.

Scenario 3 interest rates jump 300 bps to 7.5% in year 2, but no excess surrenders are seen

	Projection Year	T=0	1	2	3	4	5	6	7	8
	Treasury Rate	4.50%	4.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
	Asset Yield	5.50%	5.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
	Surrender Value	930	972	1,016	1,061	1,121	1,184	1,250	1,320	1,463
	Bond at Fair Value	986	1,041	1,006	1,092	1,185	1,310	1,421	1,542	210
	Assets									
1	Bond Book Value	986	1,041	1,150	1,215	1,283	1,380	1,459	1,542	210
2	Market Value of derivative	14	8	24	24	24	-	-	-	-
3	Total Asset Book Value	1,000	1,049	1,174	1,239	1,308	1,380	1,459	1,542	210
	Liabilities									
4	Account Value/Reserve	1,000	1,045	1,092	1,141	1,193	1,246	1,302	1,361	0
5	IMR Liability	-	-	38	32	26	33	22	11	-
	Surplus	-	4	43	66	89	101	135	170	210
	Net Income									
6	Interest Income	-	54	57	65	68	72	79	83	131
7	IMR Amortization (Derivatives)	-	-	6	6	6	11	11	11	11
8	IMR Amortization (Bond)	-	-	-	-	-	-	-	-	-
9	Premium (Claim)	1,000	-	-	-	-	-	-	-	(1,463)
10	Change in Liability Reserve	(1,000)	(45)	(47)	(49)	(51)	(54)	(56)	(59)	1,361
11	G/L on Liquidated Bonds		-	-	-	-	-	-	-	-
12	Derivative Gain		0	45	0	0	18	0	0	0
13	Net Income (held FV no IMR)		9	55	16	17	37	23	25	29
14	Net Income (held FV transfer to IMR)		9	17	22	24	30	33	36	40
15	Net Income (held amt cost transfer to IMR)		9	17	22	24	30	33	36	40
16	Chg in Surplus (held FV no IMR)		4	78	16	17	19	23	25	29
17	Chg in Surplus (held FV transfer to IMR)		4	40	22	24	12	33	36	40
18	Chg in Surplus (held amt cost transfer to IMR)		9	17	22	24	30	33	36	40
19	Surplus (held FV no IMR)		4	82	98	115	134	157	181	210
20	Surplus (held FV transfer to IMR)	-	4	43	66	89	101	135	170	210
21	Surplus (held amt cost transfer to IMR)		9	26	48	71	101	135	170	210

This scenario creates a windfall from derivatives in year 2 & 5 of $45 and $18. If there are no surrenders in year 2, this will create an unrealistic surplus bump in year 2, which may be consumed by a surrender in any of the following years, and hence should not be released into income or surplus at that time, similar holds for the value of the option that matures in year 5.

However, Lines 15 and 18 (highlighted in green) above show significantly smoother NII and Surplus when derivative gains are treated consistently with other fixed income and transferred to the IMR. Also, when derivatives are treated consistently with the rest of the assets and liabilities, there is no disconnect between income and surplus.

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Scenario 4 – interest rates go up 300 bps and we see a 500 M surrender in year 4.

	Projection Year	T=0	1	2	3	4	5	6	7	8
	Treasury Rate	4.50%	4.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
	Asset Yield	5.50%	5.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
	Surrender Value	930	972	1,016	1,061	1,121	656	693	731	810
	Bond at Fair Value	986	1,041	1,006	1,092	685	767	833	903	170
	Assets									
1	Bond Book Value	986	1,041	1,150	1,215	739	806	853	903	170
2	Market Value of derivative	14	8	24	24	24		-	-	-
3	Total Asset Book Value	1,000	1,049	1,174	1,239	764	806	853	903	170
	Liabilities									
4	Account Value/Reserve	1,000	1,045	1,092	1,141	661	690	721	754	0
5	IMR Liability	-		38	32	(10)	6	4	2	-
	Surplus	-	4	43	66	113	110	128	147	170
	Net Income									
6	Interest Income	-	54	57	65	68	42	47	50	77
7	IMR Amortization (Derivative)	-	-	6	6	6	11	11	11	11
8	IMR Amortization (Bond)	-	-	-	-	(9)	(9)	(9)	(9)	(9)
9	Premium (Claim)	1,000	-	-	-	(500)	-	-	-	(810)
10	Change in Liability Reserve	(1,000)	(45)	(47)	(49)	481	(30)	(31)	(32)	754
11	G/L on Liquidated Bonds	-	-	-	-	(43.88)	-	-	-	-
12	Derivative Gain	-	0	45	0	0	18	0	0	0
13	Net Income (held FV no IMR)	-	9	55	16	40	22	7	9	11
14	Net Income (held FV transfer to IMR)	-	9	17	22	47	15	18	20	22
15	Net Income (held amt cost transfer to IMR)	-	9	17	22	47	15	18	20	22
16	Chg in Surplus (held FV no IMR)	-	4	78	16	40	4	7	9	11
17	Chg in Surplus (held FV transfer to IMR)	-	4	40	22	47	(3)	18	20	22
18	Chg in Surplus (held amt cost transfer to IMR	-	9	17	22	47	15	18	20	22
19	Surplus (held FV no IMR)	-	4	82	98	138	142	150	158	170
20	Surplus (held FV transfer to IMR)	-	4	43	66	113	110	128	147	170
21	Surplus (held amt cost transfer to IMR)	-	9	26	48	95	110	128	147	170

In this case, in year 1, we see the same surplus drag from the decay of market value as in the prior scenarios. We see the payout of the first option in year 2, before the surrender in year 4, creating outsized income and surplus in year 2 in lines 13, 16 & 17. If options are not included in IMR (line 16) there is a windfall in surplus in year 2 and there is a big drop in surplus in year 5. Treating derivatives consistently with assets and liabilities creates a much more reasonable profile of surplus and income, consistent with timing of the realization of the risk.

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Scenario 5 - In Scenario 5 rate environment same as Scenario 4 but surrenders happen gradually starting in years 2 through 6.

	Projection Year	T=0	1	2	3	4	5	6	7	8
	Treasury Rate	4.50%	4.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
	Asset Yield	5.50%	5.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
	Surrender Value	930	972	1,016	852	689	516	334	247	274
	Bond at Fair Value	986	1,041	806	675	532	402	336	365	122
	Assets									
1	Bond Book Value	986	1,041	920	748	573	420	343	365	122
2	Market Value of derivative	14	8	24	24	24		-	-	-
3	Total Asset Book Value	1,000	1,049	944	772	598	420	343	365	122
	Liabilities									
4	Account Value/Reserve	1,000	1,045	877	701	520	333	244	255	0
5	IMR Liability		-	13	(9)	(21)	(11)	(9)	(5)	-
	Surplus	-	4	54	80	99	98	108	114	122
	Net Income									
6	Interest Income		54	57	52	43	33	26	22	31
7	IMR Amortization (Derivative)		-	6	6	6	11	11	11	11
8	IMR Amortization (Bond)		-	(4)	(8)	(12)	(15)	(16)	(16)	(16)
9	Premium (Claim)	1,000	-	(200)	(200)	(200)	(200)	(100)	-	(274)
10	Change in Liability Reserve	(1,000)	(45)	168	176	181	187	89	(11)	255
11	G/L on Liquidated Bonds		-	(30.10)	(23.74)	(17.55)	(11.54)	(2.84)	-	-
12	Derivative Gain		0	45	0	0	18	0	0	0
13	Net Income (held FV no IMR)		9	66	19	12	24	(1)	(5)	(4)
14	Net Income (held FV transfer to IMR)		9	27	26	19	17	10	6	7
15	Net Income (held amt cost transfer to IMR)		9	27	26	19	17	10	6	7
16	Chg in Surplus (held FV no IMR)		4	89	20	12	6	(1)	(5)	(4)
17	Chg in Surplus (held FV transfer to IMR)		4	51	26	19	(1)	10	6	7
18	Chg in Surplus (held amt cost transfer to IMR)		9	27	26	19	17	10	6	7
19	Surplus (held FV no IMR)		4	93	112	125	131	130	125	122
20	Surplus (held FV transfer to IMR)	-	4	54	80	99	98	108	114	122
21	Surplus (held amt cost transfer to IMR)		9	37	62	81	98	108	114	122

Here, with different emergence of losses on bonds and gains on the derivatives the surplus and income are much more volatile without the symmetrical reflection of derivatives gains and losses in IMR. Even though surrenders start to happen in year 2, when we see the first gain on the derivatives, there is still an overwhelming windfall from the derivatives because of how it is sized compared to the surrender. Lines 15 & 18, show a much more reasonable profile of net income and surplus emergence than holding at fair value without IMR treatment as shown on lines 13 &16.

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Conclusion

In summary, the needs of US life insurers within the context of the US statutory accounting framework are broader than contemplated in the existing derivative and hedge accounting framework. The risks faced are often not fully visible within the financial statements, and therefore require additional risk management practices. The US GAAP hedge accounting framework does not adequately address these specific needs (i.e., *duration*, as it is not a true "balance sheet item").

Insurers use derivatives to achieve the same results as buying and selling fixed income investments. Very often however, buying and selling fixed income investments would be inefficient, or the necessary investments do not exist. As fixed income investments are IMR eligible, and interest rate derivatives can be a substitute for them, removing IMR eligibility for their realized gains and losses would misalign the necessary economic picture insurers need to prudently enact their risk or ALM practices.

In order to avoid unintended disincentives against prudent behavior, all economically effective interest rate hedging derivatives should remain IMR eligible. Further, the hedge accounting effectiveness assessment requirements, at a minimum, should be revisited in relation to these hedging strategies so that impacts to surplus are appropriately recognized both during the derivatives' life and at termination.

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Appendix I – IMR in the context of Derivative Hedging Transactions

The applicability of the IMR construct to gains or losses from derivative hedging transactions flows from the concepts outlined in the earlier text. To illustrate its importance within plausible ALM strategies, the example outlined here assumes a more complex and realistic set of insurance liabilities.

Example 3

Assume Company XYZ issues life insurance contracts where the premiums come in each year until death and there is a payment upon death estimated to occur at the end of 5 years. Assume Company XYZ is again starting out with $10 of surplus invested in equity securities (again, assume no change in value over the period of valuation). The current interest rate environment is such that the fixed income bond yield and the insurance liability valuation rate are again both 4%, and Company XYZ:

- Sells 100 insurance contracts that pay $1 upon death for yearly premiums of 18.47 cents at the end of each year 1 through 5.
- Purchases bonds with a coupon rate of 4%, with all premiums and coupons received, maturing at the anticipated time of death in 5 years.
- Assume the market yield of 4% is constant throughout the 5-year period.

Company XYZ's balance sheet for each year, using a simplified net premium calculation for reserves, would look like Figure H.

Figure H

	Assets			Liabilities and Surplus		
Year	Bonds	Equities	Total	Insurance Liability	Surplus	Total
1	18.47	10.00	28.47	18.47	10.00	28.47
2	37.67	10.00	47.67	37.67	10.00	47.67
3	57.64	10.00	67.64	57.64	10.00	67.64
4	78.40	10.00	88.40	78.40	10.00	88.40
5	100.00	10.00	110.00	100.00	10.00	110.00

Company XYZ can pay all claims on the policy and the balance sheet surplus appropriately reflects surplus at the end of each reporting period. In the real world with this more dynamic pool of liabilities, other changes could occur, such as one or multiple of:

- Interest rates could decline, and coupon and premium payments would not be able to be invested at 4%.
- Death benefits could be paid at a point in time greater than the invested bond maturity and if interest rates decline, the bond would not be able to be re-invested at 4%.
- Policy surrenders could occur, including due to changes in market interest rates, causing the claims patterns to change from expectations.

Amidst this real-world uncertainty, Company XYZ could consider any of the following risk mitigating activities, which inherently depend upon its mix of insurance liabilities:

- Accept the risk of future asset and liability cash flow fluctuations, which could result in an inability pay claims in certain situations. For instance, if interest rates declined, the coupon payments, premium payments, and/or maturities would not be able to be re-invested in fixed income investments that have sufficient yield to pay claims as expected.
- Charge higher premiums at inception to account for the reinvestment risk and *duration* risk associated with the insurance liabilities.

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- Manage the investment portfolio to a prudent liability *duration* or any number of appropriate and prudent asset liability management (ALM) strategies.
- Prudently hedge with derivatives within the ALM strategy. Such derivative usage strategies are used where purchases are not viable or where it is more efficient to utilize derivatives.

If the derivative strategy is applied, the reinvestment risk could be hedged to lock in a 4% yield. When interest rates fluctuate, any gain or loss on the derivative offsets the lower or higher actual yield that is received on the reinvestments.

In Example 3, if interest rates plunged to 0% on day 2, Company XYZ would not be able to support the liabilities because future premiums and coupons would not be able to be reinvested at 4%. If Company XYZ had hedged reinvestment risk, they would have a gain on derivatives equal to the economic loss of not being able to invest at 4%. Similarly, if interest rates doubled to 8%, Company XYZ would have a loss on derivatives equal to the economic gain of now being able to invest at the much higher interest rate of 8%. In both cases, Company XYZ has hedged reinvestment risk and has not changed the solvency picture in Example 3.

In summary, IMR is appropriate for all types of fixed income investments, including derivatives which alter the interest rate characteristics of assets/liabilities, for all realized capital gains and losses which result from changes in the overall level of interest rates as they occur.

Appendix II – Glossary

These terms are commonly used in these strategies and/or included in the document, therefore are defined here for common understanding.

- "Duration" is a measure of interest rate sensitivity related to the sensitivity of the market value of an instrument for a given change in interest rates, when the entire curve is shifted. This may be based on MacAuley, modified, or effective duration metrics. Shocks may be based on par curve, spot curve, or other similar methods.

$$Duration = \frac{PV_{CF}(Starting\ Yield\ Curve - 1bp) - PV_{CF}(Starting\ Yield\ Curve)}{PV_{CF}(Starting\ Yield\ Curve) * 0.0001} = \frac{\text{DV01}}{PV_{CF}(Starting\ Yield\ Curve) * 0.0001}$$

- "Convexity" is measure of the curvature of how price changes with respect to interest rates. Alternatively, it is the change in duration for changes in interest rates.

$$Convexity = DV01(Starting\ Yield\ Curve - 1bp) - DV01\ (Starting\ Yield\ Curve)$$

- "Duration dollars" is a measure of interest rate sensitivity when the entire curve is shifted, and is the duration times the market value of an instrument.
- "DV01" is a measure of interest rate sensitivity of how much the market value of an instrument changes, in dollars or other currency, for a 1 bps move in rates when the entire curve is shifted. It may be calculated off of a larger shock and scaled to a 1 bp size.

Dollar Value

$$DV01 = PV_{CF}(Starting\ Yield\ Curve - 1bp) - PV_{CF}(Starting\ Yield\ Curve)$$

1 Basis Point

- "Key rate duration (KRD)" is similar to duration but represents the impact when a shock is applied to a specific bucket or set of maturities along the curve. The buckets to be used are not prescribed and can be determined by a given firm. The sum of all key rate exposures is very close to the overall duration
- "Key rate duration dollars" is similar to duration dollar but represents the impact when a shock is applied to a specific bucket or set of maturities along the curve. The buckets to be used are not prescribed and can be determined by a given firm.
- "Key rate DV01" is similar to DV01 but represents the impact when a shock is applied to a specific bucket or set of maturities along the curve. The buckets to be used are not prescribed and can be determined by a given firm.

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Appendix II

Special Accounting Provision Proposal for Asset Liability Management (ALM) Derivatives

The "Derivatives and Hedging Under Life Insurance and the NAIC's Statutory Framework" memo concluded:

- In summary, the needs of US life insurers within the context of the US statutory accounting (US Stat) framework are broader than contemplated in the existing derivative and hedge accounting framework. The risks faced are often not fully visible within the financial statements, and therefore require additional risk management practices. The US GAAP hedge accounting framework does not adequately address these specific needs (i.e., ALM exposures, like duration, as they are not true "balance sheet items," but instead contribute to the volatility of other balance sheet items as financial markets move).

- Insurers use derivatives to achieve the same results as buying and selling fixed income investments. Very often however, buying and selling fixed income investments is inefficient or the necessary investments do not exist or are illiquid. As fixed income investments are IMR eligible, and interest rate derivatives can be a substitute for them, removing IMR eligibility for their realized gains and losses would misalign the appropriate economic portrayal of insurer solvency and be contrary to the goal of prudently enacting their risk management and ALM practices.

- To avoid unintended disincentives against prudent behavior, all derivative instruments that are economically effective in hedging interest rate risks should remain IMR eligible. Further, the accounting should be revisited in relation to these hedging strategies so that impacts to surplus are appropriately recognized both during the derivatives' life and at termination.

This document expands on the above conclusion that derivatives used in interest rate hedging should remain IMR eligible and proposes updates to accounting for derivative IMR that reflect the economics of hedging activities while still presenting financial statements that appropriately reflect financial condition.

Current State

In 2023, the NAIC adopted interim guidance that allows for the admission of negative IMR up to 10% of surplus (excluding DTA, goodwill, etc.), which may include negative IMR generated by interest related realized gains and losses on fair value derivatives (as long as positive IMR generated by derivatives was previously admitted by the insurance company).

Current guidance highlights (including the interim IMR guidance):

- Per IMR instructions (2023 NAIC Annual Statement Instructions for LAH companies, pages 343-357), it is appropriate to include hedges in IMR:

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- For derivative instruments used in hedging transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated
- Realized gains/(losses), on derivative transactions entered into solely for the purpose of altering the interest rate characteristics of the company's assets and/or liabilities (hedging transactions) should be allocated to the IMR and amortized over the life of the hedged assets

- Note: "hedging transactions" are defined as derivative transactions which reduce the risk of a change in fair value or cash flow of assets and liabilities (SSAP 86, paragraph 8) and not whether the derivative is deemed "qualified" under US STAT for hedge accounting treatment

- While industry practice varies, many companies amortize gains and losses generated by certain derivatives hedging interest rates through IMR over the average maturity of the invested assets in the hedged portfolio

- Derivatives that qualify for hedge accounting treatment are reported using the same valuation method as the hedged asset (i.e., a derivative hedging bonds will be held at amortized cost)

- Statutory accounting guidance does not allow for a hedge accounting model specific to or sufficient for ALM hedges
  - Therefore, to achieve hedge accounting, interest rate derivatives must be linked to specific assets or liabilities and prove to be highly effective at offsetting their changes in cash flows or fair value from interest rate movements.

  - As noted in previously referenced memos, many of these hedging programs are calibrated on a portfolio basis and the existing hedge accounting frameworks do not address this type of hedging construct (i.e., focused on more of a fixed "1x1" relationship construct, as opposed to a dynamic portfolio of assets and liabilities).

  - As a result, many insurance companies with ALM and portfolio duration hedging programs mark their derivatives to market through surplus (unrealized gains/losses) and reclass realized gains/losses to IMR at termination/maturity.
    - This causes surplus volatility that does not reflect the economics of the hedging transactions (which ironically are intended to mitigate surplus volatility; see examples in the previously referenced memo)

More specifically, three items have been proposed for review given perceived shortfalls in current statutory accounting related to derivative accounting and IMR:

1) Effectiveness assessment methods for ALM hedging,
2) Accounting for hedges entered into and maintained in a manner consistent with the definition of IMR without causing inappropriate surplus volatility, and
3) Guidelines for the amortization of derivatives gains or losses that have been deferred to IMR.

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Background

Current derivative accounting under SSAP No. 86 includes four categories of derivatives, none of which include speculative derivatives (which are disallowed under state insurance laws):

1) Income Generation Transactions

Income generation transactions are defined as derivatives written or sold to generate additional income or return to the reporting entity. They include covered options, caps, and floors (e.g., a reporting entity writes an equity call option on stock that it already owns).

Noting derivatives cannot be speculative, per SSAP 86, paragraphs 47 and 48, as well as state derivatives laws, income generation transactions are limited to "covered" transactions.

Derivative gains and losses are based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Therefore, if the underlying/covering asset is IMR eligible (e.g., a bond), the derivative gains and losses go to IMR. If it is not IMR eligible (e.g., equity), the derivative gains or losses do not go to IMR.

2) Replication (Synthetic Asset) Transactions (RSATs)

RSATs are entered into in conjunction with other investments to reproduce the investment characteristics of otherwise permissible investments. Hedging or income generation transactions shall not be considered an RSAT. Derivative gains and losses follow those of the replicated investment. If it is IMR eligible, the derivative gains and losses go to IMR. If it is not IMR eligible, the derivative gains or losses do not go to IMR.

3) Other Derivatives (Derivatives that are not used in hedging, income generation, or replication transactions)

Other derivatives are non-admitted under statutory accounting, examples include structured notes or private warrants. Given that state insurance law does not allow companies to engage in speculation using derivative instruments, any derivatives included in this category must still comply with state insurance law, which defines them as derivatives not used for hedging, income generation, or replication. Therefore, by default, they must be one of the aforementioned examples or a similar such instrument.

4) Hedging Transactions

Hedging transactions are defined as derivatives which reduce the risk of a change in fair value or cash flow of assets and liabilities. As mentioned previously, all hedges must be legally effective to comply with state insurance laws, and companies are not allowed to speculate using derivatives. There is no additional or prescriptive effectiveness assessment requirement within SSAP No. 86, unless companies elect hedge accounting under SSAP No. 86 or 108 (see additional detail below).

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The US Stat framework for hedging transactions is largely aligned with US GAAP accounting, with a few variations due to the broader valuation standards within the accounting frameworks (ie., amortized cost versus fair value). Hedging transactions that do not attain hedge accounting are carried at market value with unrealized gains and losses in surplus (under US Stat). This is aligned with US GAAP, except that US GAAP allows reporting of unrealized gains/losses within the P&L. US Stat does not use these concepts. Hereafter the "default" hedging transactions that are not designated as Hedge Accounting under SSAP No. 86 or 108 will be referred to as "Other Economic Hedges".

The concept of "Hedge Accounting" (hereafter referred to as "HA Hedges"), a specific subset of hedging derivatives meeting prescriptive requirements, exists in both US Stat (SSAP No. 86 and 108) and US GAAP frameworks (and is also consistent with other accounting frameworks). Under US Stat, hedges for which the entity both elects the treatment and which "meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability." Under US GAAP accounting, the derivative is carried at fair value regardless of its characterization as a HA Hedge. However, US GAAP HA Hedges receive a geography match, by which the derivative accounting appears in the same financial statement line as the hedged item. Additionally, under US GAAP, the balance sheet is largely carried at fair value for certain investments, so prudent hedging strategies can more easily achieve their purpose of both financial statement and economic risk and volatility mitigation even without hedge accounting treatment.

Under US Stat, any derivative in a HA Hedge relationship is permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (there is nuance between SSAP No 86 and 108, but these are both effectively amortized cost when considering the direct accounting impact of the derivative(s) within surplus). As discussed in previous papers, this typically leads to amortized cost accounting (or a form of amortized cost accounting) for interest rate related hedges of assets and liabilities. However, if the derivative cannot achieve, or if the entity does not elect, hedge accounting there is an accounting mismatch between the hedging instrument (derivative at fair value) and the hedged item (asset or liability, often at amortized cost). This means the same prudent transaction would generally reduce volatility under US GAAP (as both are generally mark-to-market, albeit not within the same financial statement line), may actually introduce volatility under US Stat (as the hedged item is typically amortized cost and the derivative is mark-to-market).

While there is some nuance between SSAP 86 and SSAP 108, specifically within the hedge documentation requirements and actual accounting methodology, both could be considered a form of an amortized cost methodology. As a very high-level summary, one method could be thought of as "off Balance Sheet" amortized cost (SSAP No 86) and one method could be thought of as "grossed up Balance Sheet" amortized cost (SSAP No 108). However, both methods ensure that the matched derivative mark-to-market volatility (which is unrealized) is not reflected in surplus.

Many companies treat interest related gains and losses from both Other Economic Hedges and HA Hedges as IMR eligible due to the historical documentation of IMR which noted that:

> *Realized gains and losses on derivatives investments, which alter the interest rate characteristics of assets/liabilities, also are allocated to the IMR and are to be amortized into income over the life of the associated assets/liabilities.*

Additionally, for HA Hedges of bonds under SSAP No 86, if the derivative is terminated when the bond is sold, gains and losses on the derivative follow and are aligned with the treatment of the bond's gains and losses. If only the derivative is terminated, the derivative gain/loss can either adjust the basis of the bond or be deferred to the IMR. This is consistent with the interpretation from the IMR instructions, which state:

> *For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses) on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses) on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.*

As stated, insurance companies are often subject to Derivatives Use Plans (many with annual Agreed Upon Procedures by audit firms) filed with regulators. Any Income Generation, RSAT, and Hedging derivatives should not be considered Other Derivatives (and therefore non-admitted) as this would misstate solvency and disincentivize prudent risk management of insurers.

Given the wide variety of prudent hedging strategies required and employed by life insurers, the framework for assessing their effectiveness must be sufficiently flexible, while providing meaningful information to regulators as to their effectiveness. Therefore, it may be best to use the economic hedging framework within SSAP No. 108 for variable annuities where the embedded derivatives on VAs are not marked-to-market, while derivatives hedging the VA risk are. A proposal for requirements to qualify for a special accounting provision for ALM derivatives which effectively hedge interest rate risk is included below.

This proposal should be a company election on an individual program basis. Any Hedging derivatives utilized by the company which either do not meet the provision's criteria or those for which the company does not elect the provision (akin to the election and qualification process for Hedge Accounting under SSAP No. 86 and the special accounting provision under SSAP No. 108), would be considered as Other Economic Hedges under SSAP No. 86 (carried at fair value and gains/losses would not be IMR eligible).

ALM Hedging Derivatives Proposal

Due to uneconomic volatility caused by economical and precise hedges, as well as to prevent concerns related to the transformation of negative surplus to assets, we propose the following solution. This special accounting provision is intended for derivative transactions that alter the interest rate characteristics of assets/liabilities under risk mitigation programs. More specifically, "macro-hedging" ALM programs (which hedge risks that are often not true balance sheet items) and therefore hedge accounting frameworks do not address this type of hedging construct. This is because the duration and convexity of asset and liability may differ and when interest rates change, asset and liability duration may change by different amounts. Companies manage ALM programs to mitigate reinvestment, guarantee, and disintermediation risks, and to manage asset portfolios within limited ranges around a liability target duration. For these derivative transactions to be IMR eligible, they need to hedge

assets/liabilities within the context of the definition and purpose of IMR; that is, to provide consistency between asset and liability measurement so solvency is accurately reflected.

If this proposal becomes effective, any existing programs with active derivatives could be redesignated (at the proposal implementation/effective date) to the solution proposed herein so as not to cause unintended consequences or disqualify existing programs. ACLI would work with NAIC Staff to determine appropriate accounting for the transition date.

Definition and Purpose of IMR

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin) and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).

Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

Program Parameters and Documentation

The entity must document and follow a Clearly Defined Hedging Strategy (CDHS) for each ALM hedging program, which, at a minimum, must identify:

A. Specific risks being hedged,
B. Hedge objectives,
C. Risks not being hedged,
D. Financial instruments that will be used to hedge the risks (incorporating all potential instruments),
E. Hedge trading rules, including permitted tolerance from hedging objectives,
F. Metric(s) used for measuring hedge effectiveness,
G. Criteria that will be used to measure effectiveness,
H. Frequency of measuring hedging effectiveness,
I. Conditions under which hedging will not take place, and
J. The individuals responsible for implementing the hedging strategy.

The ALM hedging program may be based at a legal entity, product, segment, portfolio, investment strategy, or similar level. Any assessment should be completed at the overall ALM hedging program level and must include all hedged items (assets and/or liabilities) and hedging instruments (derivatives) within each program (aligned with the specifications within the program's CDHS). Specifically, the

company should specify in advance the criteria that are being used to test for effectiveness. For example, companies could focus on duration, duration dollars, DV01, key rate durations, key rate duration dollars, and key rate DV01s, among other measures, for this approach (the latter referred to as "Allowed Metric"). At a minimum, one metric needs to be identified. Alternatively, a company may focus on a modeled downside risk measure over a range of interest rate scenarios to show a reduction in risk, such as n-th percentile or conditional tail expectation on the present value of ending surplus (PVES) or similar metric (referred to as "Allowed Modeled Metric.")
The portfolio of derivative positions meeting the quantitative assessment requirements would be eligible for the proposed special accounting provision.

Documentation required at inception

The Company must document the calculation and measured values for their records in support of initial qualification of the hedging activity/program. There should be a clear determination, in advance of the inception of the program or the trade (if one-off), that the intent of that program/position is to manage the risks noted below. This could include, but is not limited to, identifying a portfolio or other tagging approach to which all derivatives assigned to it would be included. Trades must be designated as included within the ALM hedging program at their inception (except any noted at the time of the transition, which will be identified at transition). Such documentation should be available for review by the firm's external auditor or domiciliary regulator.

Documentation required at each reporting period

Quantitative effectiveness assessment must occur and be documented at the beginning and end of each reporting period (at a minimum, at least every three months). All derivatives within the designated ALM program must be effective at both measurements to qualify for this special accounting provision. The selected effectiveness assessment and allowed metrics must be specified in the inception documentation (CDHS), see additional details in the "Effectiveness Assessment" section.

Effectiveness Assessment

The designated portfolio of assets, liabilities, and derivatives comprising a CDHS within this special accounting provision require a quantitative assessment at the beginning and end of each reporting period (at a minimum, at least every three months). Metric and assessment level (legal entity, etc.) should be consistent with prior periods and how the hedges are calibrated. Changes should be supported by changes in business conditions and hedging strategies and should be infrequent (e.g., not every quarter), with any changes documented in the CDHS (including the effective date of the change and the rationale details for the change). Given that exposure amounts can change day-over-day due to new sales, surrenders, interest rate moves, etc., it is acceptable for a quantitative assessment to reference metrics that are within three months of the assessment.

ALM Hedging Programs under this proposal will follow the guidance in SSAP No. 86, paragraph 23 and 40, as well as Exhibit A, regarding the effectiveness of the derivatives and any excluded components. The inception documentation (CDHS) and any assessment will clearly indicate which component(s) are excluded (e.g., foreign currency rates).

Definitions:

- L – the portfolio of liabilities hedged
- A – the portfolio of assets backing liabilities L (excluding derivatives)
- D – the portfolio of derivatives that is hedging the residual ALM exposure of assets and liabilities.
- M(x) – the Allowed Metric for L, A, D, or any linear combination of the three

Example Assessment Metrics:

1. *"ALM Risk Reduction Approach"*
    - In this approach, the company is reducing the mismatches between identified assets and liabilities. The requirement is that the trades that are part of the designated program reduce the risk that would exist without the program. There is not a requirement to offset the entire mismatch. Derivatives for a given strategy or program would be considered on an aggregate basis in terms of the duration metric that is being hedged. The interest rate risk exposure for the chosen metrics for derivatives are measured consistently with the same metrics for the Hedged Item.
    - The requirement would be that trades in D are such that Portfolio D under the designated program would reduce the risk in the portfolio of A & L that would exist without the program such that under above definitions: $|M(A)-M(L)| \geq |M(A+D)-M(L)|$, where $|X|$ = Absolute Value of X.
    - Alternatively, a company may rely on actuarial modeling over a range of interest rate scenarios to show a reduction in an Allowed Modeled Metric. The requirement would be that the Allowed Modeled Metric is improved when performing the modeling on A+D (assets including the hedging derivatives), compared to only modeling with A (assets excluding the hedging derivatives).

2. *"ALM Limit Management Approach"*
    - In this approach, the company is using derivatives to help keep an asset portfolio aligned with a duration or key rate duration target or threshold, backing a liability need. Using interest rate derivatives can be akin to buying/selling bonds, can be a more efficient way to keep the portfolio aligned with target durations, while also providing for investment flexibility.
    - The liability target or threshold should be determined to align with the interest rate-related objectives for that given liability and/or the Specified Portfolio backing some or all of the assets of that liability. This target or threshold should be communicated based on an Allowed Metric. It is acceptable for the target or threshold to be represented in a number of ways, such as: a specific point metric, a calculation, a formula, a market-based investment index (like the Bloomberg US Aggregate bond index), or a customized version of a market-based investment index.
    - Portfolio D under the designated program must comply with the following definition of staying within a limit P: $|M(A+D)-M(L)| < P$.
    - The limit P can be specified as a certain percentage of either M(A) or M(L), or just as an absolute number defined and governed by the company's Risk or Asset Liability Management Committee (or similar oversight Committee function).

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Accounting

ACLI proposes three different possible accounting methods for derivatives which qualify under effective ALM hedging programs. Two approaches are modeled from existing derivative accounting guidance, and one approach is new. The following table illustrates the methodologies, with example journal entries to further illustrate and compare the potential accounting methods.

Note Method 3 is intended to incorporate the "total" derivative (both changes in FV and interest accruals) to treat all derivative instruments equally. Methods 1 and 2 do not incorporate changes in interest accruals within the unrealized gains/losses discussed below.

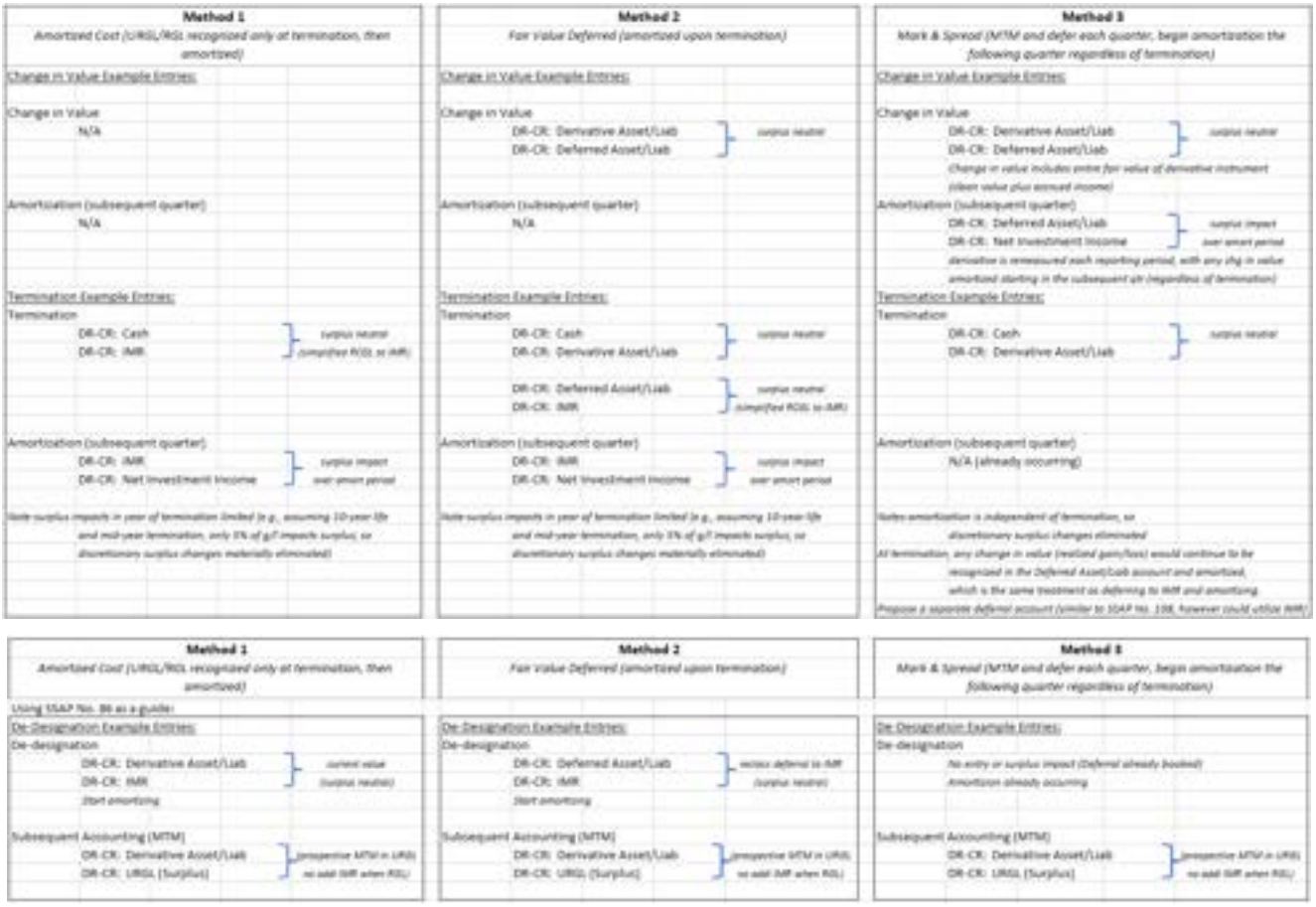
	Amortized Cost (Method 1)	**Defer Unrealized (Method 2)**	**Mark and Spread (Method 3)**
Precedent Guidance	Yes – same as SSAP No. 86 (qualified accounting hedges)	Yes – similar to SSAP No. 108	No – New method
Description	Derivatives carried at amortized cost (following the accounting treatment of the hedged items).	Derivatives carried at fair value, but any unrealized gains/losses are deferred to a different Balance Sheet account as opposed to recognized in surplus.	Derivatives carried at fair value, but any unrealized gains/losses are deferred to a different Balance Sheet account, as opposed to recognized in surplus, with amortization beginning immediately.
Derivative Basis (Carry Value)	Amortized Cost	Fair Value	Fair Value
Unrealized Gain/Loss Treatment	Not recognized until termination	Deferral Account until termination	Deferral Account with amortization through income beginning immediately
Realized Gain/Loss Treatment	Deferred to and amortized through the IMR	Deferred to and amortized through the IMR	Deferred to and amortized through the Deferral Account (same treatment as IMR)

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The following table highlights differences between the methodologies:

	Amortized Cost (Method 1)	**Defer Unrealized (Method 2)**	**Mark and Spread (Method 3)**
Better Economic and Accounting Alignment?	Yes	Yes	Yes
Discretionary surplus changes (realized losses reclass from surplus to asset)	Virtually all eliminated (potential discretion on timing of realization, but no surplus impact)	Virtually all eliminated (potential discretion on timing of realization, but no surplus impact)	All eliminated (all derivatives treated as terminated each reporting period end)
Derivative Fair Value on Balance Sheet?	No	Yes	Yes
Derivative Unrealized (MTM) in Surplus?	No	No	No (current period amortization only)
Do Derivative and Hedged Portfolio accounting align?	Yes	Somewhat (Unrealized not reflected in surplus, net carry value approximates amortized cost)	Somewhat (Amortization is aligned)

The following simplified journal entries highlight each of the above methods:



Regardless of the selected individual accounting method for ALM hedging program, any realized gain or loss at termination or de-designation is not permitted to adjust the basis of the hedged item (per SSAP No. 86 paragraph 24). Basis adjustments are limited to derivatives in Hedge Accounting relationships as specified in existing SSAP No. 86 guidance.

Along with each proposal above, ACLI would work with NAIC staff to create additional footnote disclosures and/or updates to Schedule DB. For example, for methods 2 and 3, additional disclosures could be added to separately report the balance carried in the IMR. New Schedule DB categories could be considered for any of the methods (e.g., new reporting categories similar to those added for SSAP No. 108).

IMR Amortization

ACLI acknowledges the diversity in practice for the amortization period used for any hedging derivatives' realized gain/loss after deferral to the IMR. However, this is due to how insurers view the risks hedged and their specific ALM hedging programs. To create industry uniformity, ACLI has highlighted two common amortization periods for discussion, with the intent to include both or one method in the final special accounting provision guidance.

The applicable amortization method would apply to realized gains/losses from the selected accounting methodology (applicable to Methods 1, 2, and 3), as well as for any deferred unrealized gains/losses under Method 3 (within the "Deferred Asset/Liability" account as illustrated within the sample journal entries above).

Possible amortization periods for this special accounting provision are summarized below:

- Proposed Amortization Period 1: Life of the underlying/referenced item: Utilize the underlying or referenced item, which may differ from the life of the derivative contract itself (ie., gains/losses from a 3-month futures contract on a 5-Year T-Note would be amortized over a 5-year period)

  This method would tie to the underlying risk being managed by the derivative and creates a similar outcome as if a company had used cash bond transactions to achieve the same interest rate exposure. This method is preferrable to using a single maturity assumption or the average duration of the hedged portfolio, as it more closely ties to the specific intent of a given derivative. Given that bonds (and derivatives) in the portfolio can each cover specific cash flow and key rate duration objectives for the liability(ies), tying the amortization period for derivatives to the underlying/referenced item most accurately aligns with the interest rate exposures being managed.

  For instance, if an insurer trades ultra-bond futures to manage interest rate exposure at the 30-year point of the curve, this method would align with the deliverable basket of the bond future (25+ years). It would be similar to an insurer instead buying 30-year bonds. If the insurer uses bond forwards or forward starting interest rate swaps to manage reinvestment risk into long duration assets, the underlying bond or swap tenor aligns with the liability need being hedged and with the assets that would eventually be purchased on the other side of the hedge creating a smooth income pattern. When using a swaption to manage interest rate risks, the underlying swap that the trade is

exercisable into is the exposure period being managed and aligns with managing price risk on a similar-tenor bond in the portfolio.

- Proposed Amortization Period 2: Average duration of the hedged portfolio (assets or liabilities): Utilize the duration of the assets or liabilities identified in the Program (must specify which population will be referenced and how often it will be calculated)

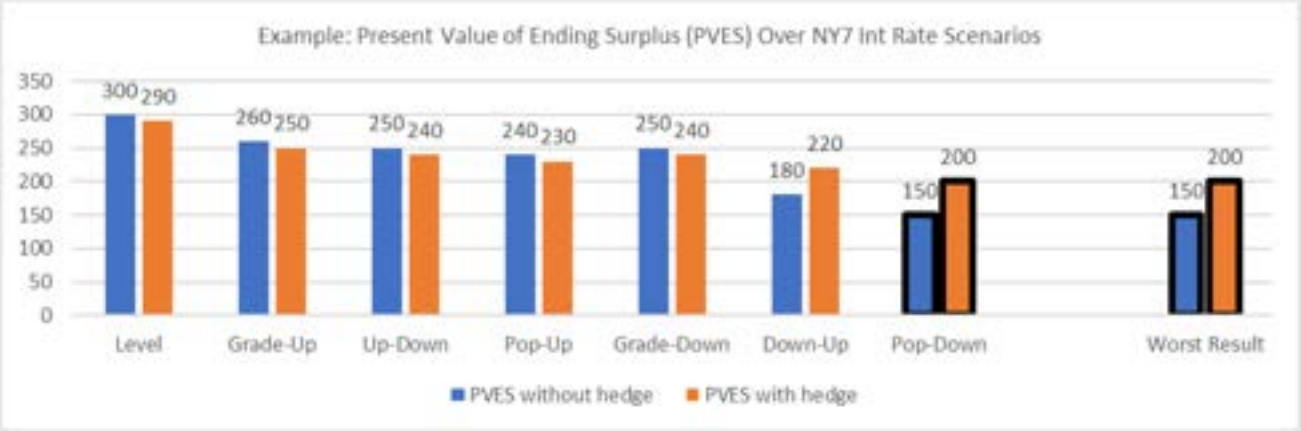
  These types of ALM hedging programs are most often focused on a combination of static and dynamic activities to reduce the key rate DV01/duration mismatches between assets and liabilities. Therefore, the optimal amortization method would allow us to reflect these mismatches properly. However, to amortize over the mismatch (or DV01/duration gap between assets and liabilities), would likely be too complicated, as the mismatches can change more frequently, and can migrate over time. Therefore, the next best thing is the weighted average life (WAL) or duration of the liabilities, as that represents the set of cashflows that the portfolio of cash bonds and derivatives is intended to defease. A company could also choose to utilize the duration of the assets supporting the liabilities. This method also eliminates having different amortization periods based on the use of different derivative instruments.

Appendix: Example of an Allowed Modeled Metric to Show Effectiveness

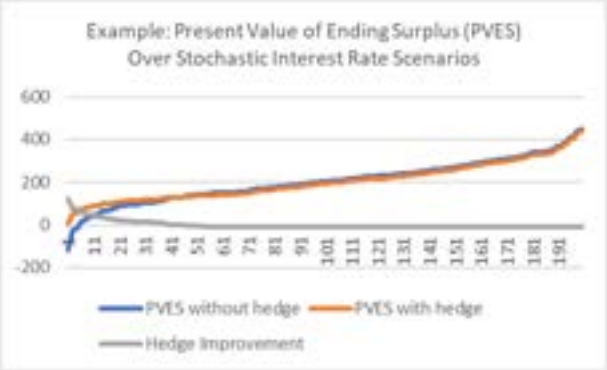
The use of an Allowed Modeled Metric can be a useful way to show hedge effectiveness. The example below shows hypothetical results under deterministic and stochastic interest rate scenarios, with and without a hedge. Metrics like the worst Present Value of Ending Surplus (PVES) outcome over a set of NY7 interest rate scenarios, or the 90th percentile outcome over a range of stochastic interest rate scenarios can be a good way to illustrate the benefit of these types of hedging instruments. While these aren't the only metrics that a company could focus on, these are used in the illustrations below.

Consider a company that has issued an annuity product with an embedded minimum interest rate guarantee. They will be subject to downside risk in the event interest rates decline. They could purchase interest rate floors or receiver swaptions as a hedge against this risk. They would pay an upfront premium (reducing the PVES in most "good" scenarios) and would see a benefit of a hedge payout (increasing the PVES in the worst scenarios). This type of hedge can help to support guarantees, protect against the risk of reserve deficiencies, and reduce income volatility - which are desirable outcomes for all stakeholders.

The first chart shows hypothetical modeled results over a set of deterministic interest rate scenarios like the NY7, and an improvement in "Worst Result" from the unhedged product (blue) compared to with the hedge (orange).



The second chart shows hypothetical modeled results over a set of stochastic scenarios, including the reduced downside risk (PVES improvement in the left side of the distribution). Additionally, the table below shows improvement in some potential Allowed Modeled Metrics that a company may consider using based on the distribution of modeled results.



	PVES Without Hedge	PVES With Hedge	Hedge Improvement
90th %ile	81	106	24
95th %ile	37	84	46
99th %ile	-61	34	96
80 CTE	65	98	32
90 CTE	27	78	52
95 CTE	-10	60	70
99 CTE	-89	21	109

Appendix III

Definition and Purpose of the Interest Maintenance Reserve (IMR)

The intent of this document is to offer a theoretical definition and purpose of IMR within the context of the U.S. Statutory Framework so that specific IMR-related issues can be addressed in future sessions of the Ad Hoc Technical Working Group from a mutually agreed upon foundation. In summary, the conceptual development of IMR recognized the need for a valuation adjustment to ensure consistent treatment of assets and liabilities and an accurate presentation of solvency amid fluctuations in interest rates. Illustrative examples further illuminate the necessity of an IMR for both positive and negative balances within the context of such a framework. After such a conceptual grounding, IMR is then considered in tandem with the more recent development of Principles-based Reserves (PBR) in Appendix 1 with Asset Adequacy Testing (AAT) in Appendix 2 and with Derivatives in Appendix 3 ensuring no inconsistencies need to be separately addressed.

The Objective of the Statutory Framework and the Necessity of IMR

The most important and fundamental purpose of the Statutory Statements is to provide basic financial information focusing on solvency. It must provide regulators (and management) the tools to monitor and ensure policy and contract holder obligations can be met when they come due. To that end, "the valuation of assets and liabilities proceeds on the assumption that the insurer is a going concern" and "valuation is not done on a liquidation basis."[2]

Liability Valuation

In keeping with the focus on solvency and conservatism, the prudent valuation of long duration insurance liabilities needs to be determined. Because insurance liabilities generally do not have a deep and wide market, their valuation is dependent on assumptions, calculations, and/or models. A market-consistent approach to liability valuation can be challenging to develop, is highly sensitive to the assumptions used, and can over rely upon or misapply current market conditions. These challenges can distort financial solvency and inhibit companies from issuing long duration insurance products. A market-consistent approach has not been adopted in the U.S. Statutory framework.

The Statutory framework's amortized cost valuation approach utilizes conservative methodologies and assumptions. In many cases, these conservative methodologies and assumptions are determined at origin and may not be changed over the entire course of the liability. As the U.S. Statutory framework has evolved, additional/new valuation approaches have been introduced (e.g., PBR). Regardless of the specific approach, the U.S. Statutory framework has remained focused on ensuring the company's long-term solvency in a stable, durable, and conservative manner.

Asset Valuation

To support their insurance liabilities and ensure solvency, companies need to invest their assets such that they have a very high probability of paying contractual liabilities when they become due. For long-duration liabilities, these investments are predominantly in conservative fixed income assets. To accurately assess whether a company can fulfill its obligations, its liabilities and assets must be presented on a financially integrated and consistent basis.

[2] "Asset Valuation Reserves and Interest Maintenance Reserves, Blue Book, December 2002". Report to the NAIC Financial Condition Committee.

In the Statutory framework, asset valuations for fixed income securities are primarily based on amortized cost accounting principles. Here the valuations reflect the market available yields (interest rates) and outlook at the time of purchase. They are generally not revisited for changes in interest rates (only for impairment). The amortized cost asset valuation approach maintains consistency with the valuation of liabilities. It also limits the use of market values, which are not always observable or reliable across the spectrum of assets insurance companies hold in support of their liabilities.

However, if an asset is sold and a new asset is purchased, the company effectively "unlocks" the yield and reflects the current market available yield in the asset valuation. The liability assumptions, as explained earlier, cannot be readily adjusted in the same manner. Because of this potential for inconsistent asset and liability valuations, the company's financial statements could provide false indicators of financial strength or of financial weakness. Concerns related to this dynamic led to the development of a prudent and innovative valuation adjustment concept within the Statutory framework: the Interest Maintenance Reserve.

Interest Maintenance Reserve

The original E Committee report lays out many considerations reviewed during its development of IMR, and it summarizes the IMR as:

> *The Interest Maintenance Reserve (IMR) - captures for all types of fixed income investments, all of the realized capital gains and losses which result from changes in the overall level of interest rates as they occur. Once captured, these capital gains or losses are amortized into income over the remaining life (period to maturity) of the investments sold. Realized gains and losses on derivative investments, which alter the interest rate characteristics of assets/liabilities, also are allocated to the IMR and are to be amortized into income over the life of the associated assets/liabilities.* [3]

Ultimately, the IMR facilitates better alignment of the timing of interest rate related gain/loss realizations on certain fixed income investments with the interest rate assumptions embedded in the policyholder liabilities they support. The IMR was developed to complement existing valuation practices, rather than replace them, and subsequent updates to valuation methodologies considered IMR in their development.

There are times when IMR treatment of an interest-related gain or loss would not be appropriate; for instance, if assets are sold to fund excess withdrawals or surrenders or to meet other significant expenses, collateral calls, etc. In general, the IMR is only appropriate for fixed income gains and losses from a portfolio of assets that support existing insurance liabilities.

Applicable Illustrative Examples

Illustrative examples are useful for understanding the concepts underpinning IMR. The following examples are simplified (e.g., the role asset adequacy testing plays in the valuation of liabilities is ignored), but they illustrate the implications of the valuation concepts involved in the IMR's development. They can then be appropriately extrapolated to the more complex insurance contracts and reserve methodologies.

[3] "Asset Valuation Reserves and Interest Maintenance Reserves, Blue Book, December 2002". Report to the NAIC Financial Condition Committee.

Example 1

Assume Company XYZ starts out with $10 of surplus invested in equity securities with no change in value over the period of valuation. The prevailing interest rate environment is such that the fixed income bond yield and the insurance liability valuation rate are both 4%, and Company XYZ:

- Sells an insurance contract that pays $100 at the end of ten years as well as pays $4 at the end of years 1 – 10 for $100 dollars of premium received today.
- Purchases a 10-year bond with a coupon rate of 4% to support the liability.

Under statutory accounting, Company XYZ's balance sheet would look like Figure A.

Figure A

Assets		Liabilities and Surplus	
Bonds	100	Insurance liability	100
Equities	10	Surplus	10
Total Assets	110	Liabilities & Surplus	110

Next, assume that bond yields drop to 2% immediately after Company XYZ purchases the bond. Company XYZ's balance sheet would not change, although the bond is now valued at $118. From a statutory solvency perspective, there is no concern with the balance sheet because the bond can fund the liability and the financial statements are reported on a financially integrated basis and accurately reflect solvency.

Later that day, assume Company XYZ sells the bond and immediately invests the proceeds in a new 10-year bond of the same credit quality with a coupon rate of 2%. Par value would now be $118. Company XYZ's balance sheet, without the Interest Maintenance Reserve concept (or performing asset adequacy analysis), would now look like Figure B.

Figure B

Assets		Liabilities and Surplus	
Bonds	118	Insurance liability	100
Equities	10	Surplus	28
Total Assets	128	Liabilities & Surplus	128

Without IMR, Company XYZ's balance sheet shows an illusory increase in surplus as the bond has essentially been marked to market at $118 but the insurance liability is unchanged. The bond's coupon payments are now insufficient to meet policyholder obligations, and the company may have to sell a portion of the bond every year to meet its yearly obligation.

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To further illustrate the solvency distortion absent the IMR, assume Company XYZ sells $18 of the bond and dividends the $18 to its owners. Its balance sheet in Figure C would show the company still appearing solvent.

Figure C			
Assets		Liabilities and Surplus	
Bonds	100	Insurance liability	100
Equities	10	Surplus	10
Total Assets	110	Liabilities & Surplus	110

However, the total shortfall (without adjusting for minor interest effects) as the liability runs off would be:

Total of yearly (40) and final (100) payments owed policyholder	(140)
Total bond interest payments (20) and maturity (100)	120
Total equity sale	10
Total shortfall including sale of surplus assets	(10)

As discussed earlier, the IMR was developed to address the marking to market of assets upon sale, where the liabilities are unchanged, with a valuation adjustment (IMR) so that the Statutory framework can value both assets and liabilities on a consistent basis. With IMR, the inappropriate portrayal of solvency in Figures B and C would not occur. More importantly, the inappropriate dividend would not have been able to occur, and the balance sheet would instead look like Figure D.

Figure D			
Assets		Liabilities and Surplus	
Bonds	118	Insurance liability	100
Equities	10	IMR	18
Total Assets	128	Surplus	10
		Liabilities & Surplus	128

Example 2

After demonstrating the importance of IMR in a declining interest rate environment in Example 1, Example 2 demonstrates its importance in a rising interest rate environment. For Company XYZ, assume the same starting position as Example 1. Immediately after purchasing the bond, the bond yield increases to 6%. Company XYZ's balance sheet would not change although the bond now has a market value of $85. From a statutory solvency perspective, there is no concern with the balance sheet valuation because the bond can fund the liability and the financial statements are reported on a financially integrated basis and accurately reflect solvency.

Later that day, assume Company XYZ sells the bond and immediately invests the proceeds in a 10-year bond of the same credit quality with a coupon rate of 6%. Par value would now be $85. Company XYZ's balance sheet, without IMR, would look like Figure E.

Figure E			
Assets		Liabilities and Surplus	
Bonds	85	Insurance liability	100
Equities	10	Surplus	(5)
Total Assets	95	Liabilities & Surplus	95

Company XYZ's balance sheet now shows illusory decreased financial strength as the bond has essentially been marked to market at $85 but the insurance liabilities are unchanged. The company could still fund the liability by retaining and investing the increased bond coupons received. The total surplus as the liability runs off would be:

Total of yearly (40) and final (100) payments owed policyholder	(140)
Total bond interest payments (55*) and maturity (85)	140
Total equity sale	10
Total surplus including after sale of surplus assets	10

*10 payments of $5.10 ($85 x 6%) plus approximately $4 of interest earnings from investing the annual excess of the coupon payments the new bond generates ($5.10) from that paid to the policyholder ($4).

Just like in Example 1, the inappropriate portrayal of solvency in this example would not occur after including IMR, and the balance sheet would look like Figure F.

Figure F			
Assets		Liabilities and Surplus	
Bonds	85	Insurance liability	100
IMR*	15	Surplus	10
Equities	10	Liabilities & Surplus	110
Total Assets	110		

* For these examples, it is inconsequential whether negative IMR is reported an asset or contra liability. It is placed here as an asset for illustrative purposes only.

Prior to selling the original bond and re-investing the proceeds, the bond on Company XYZ's balance sheet was in an unrealized loss position. Hypothetically, it could have been shown in the financial statements as in Figure G.

Figure G			
Assets		Liabilities and Surplus	
Bonds at Market	85	Insurance liability	100
Unrealized Loss	15	Surplus	10
Equities	10	Liabilities & Surplus	110
Total Assets	110		

As the original bond and the new bond are transacted at market value, there would be no difference in solvency position pre- and post-trade for Company XYZ. Disallowing negative IMR in Figure F (the IMR value under "Assets") is no more appropriate than disallowing the unrealized loss embedded within the balance sheet in Figure G.

An illustrative example regarding IMR in the context of derivative hedging transactions is provided in Appendix 3.

Definition of IMR

With this background, we now have the proper context to define and state the purpose of IMR:

> IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin) and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).
>
> IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).
>
> Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

To accurately assess whether a company can fulfill its obligations, it must present its liabilities and assets on a financially integrated and consistent basis. If they are inconsistent, then the annual statement will not reveal the degree to which assets exceed liabilities and neither regulators nor management can appropriately determine the risk of insolvency for the company. Taken further, limiting IMR balances creates an inconsistency within the Statutory framework and would generate false solvency signals for regulators. Limiting IMR balances can also disincentivize prudent interest rate risk management. By appropriately recognizing fixed income gains and losses within the Statutory framework, the IMR prevents the misrepresentation of surplus from changes in interest rates.

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Appendix 1 – IMR in the context of Principle-Based Reserving (PBR)

PBR is a relatively recently developed method for calculating U.S. statutory reserves that intends to better quantify product risks. Distinctive to PBR in the Statutory framework, the approach considers a range of future economic scenarios and uses justified company-specific assumptions that can change over time as company experience emerges, subject to regulatory guardrails. PBR is generally applicable for individual life insurance contracts issued 2020 and later (VM-20) and for all variable annuity contracts (VM-21). PBR is expected to apply to fixed annuity contracts issued 2025 and later (VM-22). Minimum reserves under PBR are the maximum of a formula-based reserve and modeled reserves.

For PBR's formula-based reserves, the accounting basis is "frozen" and "locked in" at issue and does not reflect underlying assets or a company's investment strategy (e.g., the net premium reserve). As a result, the existing IMR construct works in tandem with PBR's formula-based reserves to maintain consistency between the liability and asset valuations when the asset valuation is unlocked due to asset sales.

For PBR's modeled reserves, the accounting basis is not "frozen" but is unlocked over time with assumptions that reflect company experience in its cash flow models (e.g., the deterministic reserve and the stochastic reserve). Under PBR's modeled reserves, the reserves reflect the company's underlying assets and investment strategy, and the impact of asset gains or losses is reflected in the modeled reserve calculation. Distinctive to the modeled reserve component(s) of PBR, the modeled reserves then reflect an explicit adjustment for IMR so that there is no surplus impact at time of asset sale.

In summary, the IMR construct is necessary for consistent liability valuation under PBR's formula-based reserves and is already explicitly reflected and accounted for under PBR's modeled reserves.

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Appendix 2 – IMR in the context of Asset Adequacy Testing (AAT)

Asset adequacy analysis is an analysis of the adequacy of reserves and other liabilities, considering the assets supporting such reserves and other liabilities under moderately adverse conditions. If additional assets are needed, then the actuary should establish an additional reserve equal to the value of those additional assets.

A common form of asset adequacy analysis is cash flow testing, which is the projection and comparison of the timing and amount of cash flows under one or more scenarios. Conceptually, cash flow testing is similar to the deterministic reserve, or a set of deterministic reserves, under PBR as discussed in Appendix 1.

In 2022 and 2023, the NAIC's Life Actuarial (A) Task Force provided guidance on allocating negative IMR for PBR and AAT. This guidance recommended that any portion of negative IMR that is an admitted asset should be allocated for PBR and AAT in a principle-based, reasonable, and appropriate manner that would be consistent with the handling of negative IMR. Effectively, AAT explicitly accounts for admitted negative IMR by reducing the amount of interest-earning assets. Likewise, AAT can reflect positive IMR by allowing for a larger starting balance of interest-earning assets. In summary, AAT has been designed in tandem with the IMR construct to ensure the consistent valuation of assets and liabilities within the Statutory framework.

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Appendix 3 – IMR in the context of Derivative Hedging Transactions

The applicability of the IMR construct to gains or losses from derivative hedging transactions flows from the concepts outlined in the earlier text. To illustrate its importance within plausible ALM strategies, the example outlined here in Appendix 3 assumes a more complex and realistic set of insurance liabilities.

Example 3

Assume Company XYZ issues life insurance contracts where the premiums come in each year until death and there is a payment upon death estimated to occur at the end of 5 years. Assume Company XYZ is again starting out with $10 of surplus invested in equity securities (again, assume no change in value over the period of valuation). The current interest rate environment is such that the fixed income bond yield and the insurance liability valuation rate are again both 4%, and Company XYZ:

- Sells 100 insurance contracts that pay $1 upon death for yearly premiums of 18.47 cents at the end of each year 1 through 5.
- Purchases bonds with a coupon rate of 4%, with all premiums and coupons received, maturing at the anticipated time of death in 5 years.
- Assume the market yield of 4% is constant throughout the 5-year period.

Company XYZ's balance sheet for each year, using a simplified net premium calculation for reserves, would look like Figure H.

Figure H

	Assets			Liabilities and Surplus		
Year	Bonds	Equities	Total	Insurance Liability	Surplus	Total
1	18.47	10.00	28.47	18.47	10.00	28.47
2	37.67	10.00	47.67	37.67	10.00	47.67
3	57.64	10.00	67.64	57.64	10.00	67.64
4	78.40	10.00	88.40	78.40	10.00	88.40
5	100.00	10.00	110.00	100.00	10.00	110.00

Company XYZ can pay all claims on the policy and the balance sheet surplus appropriately reflects surplus at the end of each reporting period. In the real world with this more dynamic pool of liabilities, other changes could occur, such as one or multiple of:

- Interest rates could decline, and coupon and premium payments would not be able to be invested at 4%.
- Death benefits could be paid at a point in time greater than the invested bond maturity and if interest rates decline, the bond would not be able to be re-invested at 4%.
- Policy surrenders could occur, including due to changes in market interest rates, causing the claims patterns to change from expectations.

Amidst this real-world uncertainty, Company XYZ could consider any of the following risk mitigating activities, which inherently depend upon its mix of insurance liabilities:

- Accept the risk of future asset and liability cash flow fluctuations, which could result in an inability pay claims in certain situations. For instance, if interest rates declined, the coupon payments, premium payments, and/or maturities would not be able to be re-invested in fixed income investments that have sufficient yield to pay claims as expected.

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- Charge higher premiums at inception to account for the reinvestment risk and duration risk associated with the insurance liabilities.
- Manage the investment portfolio to a prudent liability duration or any number of appropriate and prudent asset liability management (ALM) strategies.
- Prudently hedge with derivatives within the ALM strategy. Such derivative usage strategies are used where purchases are not viable or where it is more efficient to utilize derivatives.

If the derivative strategy is applied, the reinvestment risk could be hedged to lock in a 4% yield. When interest rates fluctuate, any gain or loss on the derivative offsets the lower or higher actual yield that is received on the reinvestments.

In Example 3, if interest rates plunged to 0% on day 2, Company XYZ would not be able to support the liabilities because future premiums and coupons would not be able to be reinvested at 4%. If Company XYZ had hedged reinvestment risk, they would have a gain on derivatives equal to the economic loss of not being able to invest at 4%. Similarly, if interest rates doubled to 8%, Company XYZ would have a loss on derivatives equal to the economic gain of now being able to invest at the much higher interest rate of 8%. In both cases, Company XYZ has hedged reinvestment risk and has not changed the solvency picture in Example 3.

In summary, IMR is appropriate for all types of fixed income investments, including derivatives which alter the interest rate characteristics of assets/liabilities, for all realized capital gains and losses which result from changes in the overall level of interest rates as they occur.

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December 9, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Ref #2024-26 EP

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following item that was exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due December 9th.

Ref #2024-26 EP: Editorial Revisions

Interested parties request a deferral of Ref #2024-26 EP for further discussion in 2025 to address several concerns that we have with the proposal. We believe that the terms 'category and subcategory' need clarification as we've interpreted that category equates to *ICO* and *ABS* and subcategory equates to examples such as '*Non-U.S. Sovereign Jurisdiction Securities*' and '*Other Non-Financial Asset-Backed Securities – Practical Expedient*'. We suggest clarifying language in the Investment Schedules General Instructions of the Annual Statement Instructions to differentiate between Categories and Subcategories. The proposed revisions to SSAP No. 26 would require disclosure of all the new Schedule D – Part 1 categories and the underlying subcategories in the audited financial statements. The Principles-Based Bond Project has: a) significantly increased the number of Schedule D – Part 1 categories/subcategories and b) introduced more judgment and subjectivity with respect to the classification of bonds into these subcategories. As a result, we are concerned that subjecting these processes to audit will result in additional reporting and audit burden disproportionate to the value of these disclosures in the audited financial statements. We understand regulators' desire for comfort with respect to the appropriate classification of bonds. However, we would like to discuss whether a less prescriptive, principles-based approach might provide the desired information and audit comfort, while limiting the undue burdens for reporting entities and their auditors.

* * * *

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Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

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Ref #2024-26EP

NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
November 17, 2024

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (Manual) such as editorial corrections, reference changes, and formatting.

SSAP/Appendix	Description/Revision
SSAP No. 26—Bonds	Editorial change to reinstate disclosure language and reporting category provision.

***SSAP No. 26—Bonds*:**

Overview: The disclosure in paragraph 39.e. is an existing disclosure (pre-bond-definition revisions) in SSAP No. 26. However, the pre-bond-definition version of the disclosure included direction for disclosure by Schedule D broad reporting categories, with categories listed in the SSAP. These reporting categories were removed from the adopted revised SSAP No. 26 disclosure effective January 1, 2025. Although this disclosure is satisfied by the completion of Schedule D-1-1 and D-1-2 for statutory accounting purposes, comments have been made that the adopted revised language could require a listing of all bonds in the audited financial statements. As such, editorial revisions have been proposed to reinstate the prior language for "receiving bond treatment" (as adopted, revised *SSAP No. 43—Asset-Backed Securities*, paragraph 44.m., points to this SSAP No. 26 disclosure for ABS items), and to include reference to reporting categories. A listing of the reporting categories is not deemed necessary within the SSAP.

Proposed Edits to SSAP No. 26 (effective January 1, 2025):

> 39.e. For each annual balance sheet presented, the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond or assets ~~in scope of this statement~~receiving bond treatment, by category and subcategory as reported in annual statement Schedule D – Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset-Backed Securities).

Staff Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorized as a SAP clarification, and expose editorial revisions as illustrated within.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed the above editorial revisions to *SSAP No. 26—Bonds* for a shortened comment period ending December 9, 2024.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group adopted the above exposed revisions effective January 1, 2025, as part of the revised SSAP No. 26 reflecting the bond definition.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1B2-24-26EP Fall 2024.docx

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Statutory Accounting Principles (E) Working Group
2025 Spring National Meeting
Comment Letters Received

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
Comment Letters Received for Items Exposed for the 2025 Spring National Meeting	
American Council of Life Insurers – November 4, 2024 – Ref #2024-15: ALM Derivatives (*Refer to Attachment One-B1 – Comment Letters Presented at the SAPWG 12/17/2024 Meeting*)	
American Property and Casualty Insurance Association – December 10, 2024 o Ref #2024-07: Reporting of Funds Withheld and Modco Assets	2-3
Interested Parties – December 16, 2024 o Ref #2024-07: Reporting of Funds Withheld and Modco Assets	4-10
United Healthcare – December 16, 2024 o Ref #2024-07: Reporting of Funds Withheld and Modco Assets	11-12
Interested Parties – December 2024 with updates January 30, 2025 o Ref #2024-04: Conforming Repurchase Agreements Assets	13-27
Interested Parties – January 31, 2025 o Ref #2023-28: Collateral Loan Reporting o Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts o Ref #2024-16: Repacks and Derivative Investments o Ref #2024-20: Restricted Asset Clarification o Ref #2024-21: Investment Subsidiaries o Ref #2024-28: Holders of Capital Notes	28-39
Industry Recommendations on INT 24-02: Medicare Part D Prescription Payment Plan	
America's Health Insurance Plans (AHIP) / Blue Cross Blue Shield Association (BCBSA) March 5, 2025 on Medicare Part D Prescription Payment Plan	40-46

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December 10, 2024

Mr. Dale Bruggeman
Chair, NAIC Statutory Accounting Principles (E) Working Group

Re: Agenda Item 2024-07, Modified Coinsurance Reporting

Dear Mr. Bruggeman:

The American Property Casualty Insurance Association (APCIA)[1]appreciates the opportunity to comment on Agenda Item 2024-07. We write to urge the Working Group to reject the proposed new Schedule F Part 7 to the property casualty Annual Statement that would require special reporting for funds withheld for reinsurance contracts. We participated in the discussions and endorse the comments of the industry's interested parties group on this item, but would like to raise several issues that are specific to property casualty insurers as there are significant differences in funds held arrangements between property casualty and life insurers.

The use of funds withheld arrangements in property and casualty reinsurance agreements has declined due to the recognition of Certified Reinsurers and Reciprocal Jurisdictions.
There are generally two types of arrangements in the property and casualty insurance industry where cash were "withheld" in past reinsurance transactions. The first is quota share arrangements where the cedent would hold back cash as both a credit risk mitigant and to lessen the operational burden of funds being paid to/from the reinsurer. The second was cash received as collateral in lieu of a letter of credit or trust agreement to allow the ceding insurer to take credit for reinsurance. The cash withheld component of these agreements is generally no longer used due to changes in the reinsurance collateral rules with the introduction of Certified Reinsurers and Reciprocal Jurisdictions. As a result, the reinsurance agreements in which funds were withheld as collateral in the past are in runoff and thus the proposed reporting change would generally only apply to older reinsurance contracts where the cash withheld amounts are generally no longer significant.

No specifically identified assets
The proposed Schedule F-Part 7 requires specific identification and reporting of the assets comprising funds withheld. This is contrary to the manner in which property casualty reinsurance is conducted. Property casualty insurers do not use modified co-insurance (modco) and ceding companies generally hold cash in the funds withheld arrangement and the cash held is comingled with the ceding company's general cash account(s). There was no need to designate specific assets as supporting a funds withheld liability because the necessary amounts due the reinsurer are either paid from the ceding company's general account or are netted with amounts receivable from the reinsurer in satisfaction of

[1] APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members include companies of all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

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amounts owed to the cedent. If the new Schedule F Part 7 requires companies to segregate assets to support funds withheld, this would require companies to attempt to track fungible cash from funds withheld to the investments made from those funds for reinsurance agreements that were generally entered into prior to the reinsurance collateral changes and are in runoff. In addition, such reporting would not be supported by any legal restriction on such cash (in fact, no such legal restriction exists).

Funds withheld already reported

Schedule F, Part 3 of the property casualty Annual Statement already requires ceding companies to report funds withheld with regard to each reinsurer with which the cedent does business. Funds withheld are further included in the analysis of credit risk in Part 3. Since funds withheld are not attributable to specific assets, there is no additional reporting to be made.

No significant effect on RBC

We understand that in the life insurance industry funds withheld and modco assets may be separately identified, and that such identification has RBC (risk-based capital) and/or IMR (interest maintenance reserve) consequences. The identity of funds withheld assets has no implications for property casualty insurers – the RBC charge for a particular type of asset is not affected by whether the asset relates to funds withheld or not. In other words, any asset will have the appropriate RBC charge whether it is a funds held asset or not.

Finally, we notice that the agenda item contains no rationale for imposing this requirement on property casualty insurers except that “funds withheld also exist for property/casualty insurance”. This is not a sufficient reason to impose an unnecessary requirement that will require significant company resources for no solvency-related purposes. APCIA respectfully requests that this agenda item be amended to remove the proposed requirement for a new property casualty Part 7.

Sincerely,



Jay Muska, CFA, CPA
Vice President of Accounting and Financial Issues
American Property and Casualty Insurance Association

cc: Julie Gann
Jake Stultz
Robin Marcotte
Wil Oden
Jason Farr

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December 16, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Ref #2024-07: Reporting of Funds Withheld and Modco Assets

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following item that was exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due December 9th.

Ref #2024-07: Reporting of Funds Withheld and Modco Assets

Interested parties appreciate the opportunity to comment on the above referenced item that was re-exposed for comment by the Statutory Accounting Principles (E) Working Group (SAPWG) during the NAIC Summer National Meeting in Chicago.

The proposal, Ref # 2024-07, Reporting of Funds Withheld and Modco Assets, originated from discussions among the IMR Ad Hoc Group, as they noted issues with identifying assets that are subject to funds withheld (FWH) or modified coinsurance (Modco) arrangements. Our understanding of the intent of the proposal is to have transparency in the Annual Statement into the reduction of Risk Based Capital (RBC) charges for ceded FWH and Modco assets in the life RBC formula.

Interested parties request that SAPWG reject the proposed new Schedule F - Part 7 to the property and casualty Annual Statement that would require special reporting for FWH and Modco assets and consider the proposed alternative to the proposed new Schedule S - Part 8 to the life and health Annual Statement as discussed below.

Property & Casualty

Interested parties request that the SAPWG reject the proposed Schedule F - Part 7 for property and casualty FWH and Modco assets.

Reasons for Rejection:

1. **Limited Applicability:** Property and casualty insurers do not engage in Modco transactions. Moreover, due to the recognition of Certified Reinsurers and Reciprocal Jurisdictions, FWH provisions in reinsurance agreements have significantly decreased. Contracts with FWH provisions are typically in run-off and not substantive.

2. **Lack of Specific Asset Identification and Use Restrictions:** Past reinsurance agreements did not mandate specific identification or restrict the use of assets acquired with the withheld funds. Consequently, the assets are commingled with property and casualty insurers' general account assets and reported in cash and/or the appropriate investment schedule in the ceding insurer's annual statement. Additionally, FWH liabilities are either settled using general account assets or netted against amounts due from reinsurers. Currently, the amounts of FWH are reported in the aggregate on line 13 of the liabilities page of the annual statement balance sheet and in Schedule F - Part 3, column 20, by individual reinsurer.

Life Insurance

Reporting Format

As noted in the interested parties comment letter dated May 31, 2024, we are concerned that the disclosure of CUSIP-by-CUSIP information may create competitive harm or jeopardize the proprietary nature of reinsurance pricing strategies. Additionally, the presentation of this level of information does not seem relevant based on the stated objective of the accounting standard.

Given these concerns, we recommend that this proposed schedule follow the format of the AVR Schedule in the Annual Statement that shows summarized data by each asset class and rating category. This approach ties directly to the 20-category structure used by the RBC calculation which will allow software providers to easily program the asset totals to move through to the RBC calculation. FWH and Modco assets in this schedule would include Book/Adjusted Carrying Value (BACV) of General Account and Guaranteed Separate Account assets.

We have created a revised version of the exposed Schedule S – Part 8 (see attachment) utilizing the AVR Schedule format including ceded and assumed transactions. Given that this revised schedule is based on the AVR Schedules format, any future changes to the AVR schedules should be considered for Schedule S – Part 8.

We believe this solution would address regulators' goals with respect to RBC for FWH and Modco reinsurance transactions while addressing key industry concerns by creating a direct feed to the RBC formula. For cedants, the scope of reinsurance transactions subject to this reporting requirement would be where RBC credit is taken for asset risks transferred to the assuming entity. For assuming companies, the scope would include transactions where RBC asset charges are taken for asset risks assumed from the cedant.

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Separate Account Assets

For Separate Account assets where there is no C-1 required capital, interested parties propose including the BACV of such FWH and Modco assets as a single line in the schedule. For example, reinsurance arrangements involving liabilities supported by Non-Guaranteed Separate Account assets are typically reinsured on a Modco basis, as the underlying assets are owned by the policyholders rather than the insurer. Consequently, they do not incur an RBC asset charge and are not recorded in an AVR schedule.

Timing

To facilitate the required reporting, commercial annual statement reporting vendors will need to build the new schedule into their software. Beyond that, many companies note additional work may be required to modify their investment and/or accounting systems to populate the proposed new schedules with the assets associated with FWH and Modco agreements. Others may not have the ability to make changes to their investment and/or accounting systems and would need to create manual processes including appropriate controls to meet the reporting obligations. This will all require significant time, effort, and cost. The ongoing bond definition project will compete for company resources. In spite of these challenges, the preliminary view of life interested parties is that a 2025 year-end implementation of a newly populated schedule S – Part 8 is likely achievable. However, process steps including Blanks Working Group adoption, RBC linkages, and software vendor requirements must be considered as well.

Interested parties acknowledge the importance of transparency in financial reporting for RBC with respect to assets backing FWH and Modco reinsurance transactions. We look forward to working with the SAPWG, as you further refine this proposal.

* * * *

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

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AVRDC - L030

	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1		Company	Statement											
2														
3														
4		ANNUAL STATEMENT FOR THE YEAR 2023 OF THE ABC Life Insurance Company												
5		Schedule S - Part 8												
6			Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
7			1	2	3	4	5	6	7	8	9	10	11	12
8			F-WH Book/Adjusted Carrying Value	Modco Book/Adjusted Carrying Value	F-WH Book/Adjusted Carrying Value	Modco Book/Adjusted Carrying Value	F-WH Book/Adjusted Carrying Value	Modco Book/Adjusted Carrying Value	F-WH Book/Adjusted Carrying Value	Modco Book/Adjusted Carrying Value	F-WH Book/Adjusted Carrying Value	Modco Book/Adjusted Carrying Value	F-WH Book/Adjusted Carrying Value	Modco Book/Adjusted Carrying Value
9		Cash and Cash Equivalents												
10	L030 - AVRDC													
11	01	Exempt Obligations												
12	02.1	Long-Term Bonds: NAIC Designation Category 1.A												
13	02.2	NAIC Designation Category 1.B												
14	02.3	NAIC Designation Category 1.C												
15	02.4	NAIC Designation Category 1.D												
16	02.5	NAIC Designation Category 1.E												
17	02.6	NAIC Designation Category 1.F												
18	02.7	NAIC Designation Category 1.G												
19	02.8	Subtotal NAIC 1 (2.1+2.2+2.3+2.4+2.5+2.6+2.7)	0		0				0		0			
20	03.1	NAIC Designation Category 2.A												
21	03.2	NAIC Designation Category 2.B												
22	03.3	NAIC Designation Category 2.C												
23	03.4	Subtotal NAIC 2 (3.1+3.2+3.3)	0		0				0		0			
24	04.1	NAIC Designation Category 3.A												
25	04.2	NAIC Designation Category 3.B												
26	04.3	NAIC Designation Category 3.C												
27	04.4	Subtotal NAIC 3 (4.1+4.2+4.3)	0		0				0		0			
28	05.1	NAIC Designation Category 4.A												
29	05.2	NAIC Designation Category 4.B												
30	05.3	NAIC Designation Category 4.C												
31	05.4	Subtotal NAIC 4 (5.1+5.2+5.3)	0		0				0		0			
32	06.1	NAIC Designation Category 5.A												
33	06.2	NAIC Designation Category 5.B												
34	06.3	NAIC Designation Category 5.C												
35	06.4	Subtotal NAIC 5 (6.1+6.2+6.3)	0		0				0		0			
36	07	NAIC 6	0		0				0		0			
37	08	Total Unrated Multi-class Securities Acquired by Conversion												
38	09	Total Long-Term Bonds (1+2.8+3.4+4.4+5.4+6.4+7+8)	0		0				0		0			
39	10	Preferred Stocks: Highest Quality												
40	11	High Quality												
41	12	Medium Quality												
42	13	Low Quality												
43	14	Lower Quality												
44	15	In or Near Default												
45	16	Affiliated Life with AVR												
46	17	Total Preferred Stocks (Sum of Lines 10 thru 16)	0		0				0		0			
47	18	Short-Term Bonds: Exempt Obligations												
48	19.1	Short-Term Bonds: NAIC Designation Category 1.A												
49	19.2	NAIC Designation Category 1.B												
50	19.3	NAIC Designation Category 1.C												
51	19.4	NAIC Designation Category 1.D												
52	19.5	NAIC Designation Category 1.E												
53	19.6	NAIC Designation Category 1.F												
54	19.7	NAIC Designation Category 1.G												
55	19.8	Subtotal NAIC 1 (19.1+19.2+19.3+19.4+19.5+19.6+19.7)	0		0				0		0			
56	20.1	NAIC Designation Category 2.A												
57	20.2	NAIC Designation Category 2.B												
58	20.3	NAIC Designation Category 2.C												
59	20.4	Subtotal NAIC 2 (20.1+20.2+20.3)	0		0				0		0			
60	21.1	NAIC Designation Category 3.A												
61	21.2	NAIC Designation Category 3.B												
62	21.3	NAIC Designation Category 3.C												
63	21.4	Subtotal NAIC 3 (21.1+21.2+21.3)	0		0				0		0			
64	22.1	NAIC Designation Category 4.A												

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AVRDC - L030

	B	C	D	E	F	G	H	I	J	K	L	M	N	O
65	22.2	NAIC Designation Category 4.B												
66	22.3	NAIC Designation Category 4.C												
67	22.4	Subtotal NAIC 4 (22.1+22.2+22.3)	0		0				0		0			
68	23.1	NAIC Designation Category 5.A												
69	23.2	NAIC Designation Category 5.B												
70	23.3	NAIC Designation Category 5.C												
71	23.4	Subtotal NAIC 5 (23.1+23.2+23.3)	0		0				0		0			
72	24	NAIC 6												
73	25	Total Short-Term Bonds (18+19.8+20.4+21.4+22.4+23.4+24)	0		0				0		0			
74	26	Derivative Instruments: Exchange Traded												
75	27	Highest Quality												
76	28	High Quality												
77	29	Medium Quality												
78	30	Low Quality												
79	31	Lower Quality												
80	32	In or Near Default												
81	33	Total Derivative Instruments	0		0				0		0			
82	34	Total (Lines 9 + 17 + 25 + 33)	0		0				0		0			
83	35	Mortgage Loans: In Good Standing: Farm Mortgages - CM1 - highest quality												
84	36	Farm Mortgages - CM2 - high quality												
85	37	Farm Mortgages - CM3 - medium quality												
86	38	Farm Mortgages - CM4 - low medium quality												
87	39	Farm Mortgages - CM5 - low quality												
88	40	Residential Mortgages - Insured or Guaranteed												
89	41	Residential Mortgages - All Other												
90	42	Commercial Mortgages - Insured or Guaranteed												
91	43	Commercial Mortgages - All Other - CM1 - highest quality												
92	44	Commercial Mortgages - All Other - CM2 - high quality												
93	45	Commercial Mortgages - All Other - CM3 - medium quality												
94	46	Commercial Mortgages - All Other - CM4 - low medium quality												
95	47	Commercial Mortgages - All Other - CM5 - low quality												
96	48	Overdue, Not in Process: Farm Mortgages												
97	49	Residential Mortgages - Insured or Guaranteed												
98	50	Residential Mortgages - All Other												
99	51	Commercial Mortgages - Insured or Guaranteed												
100	52	Commercial Mortgages - All Other												
101	53	In Process of Foreclosure: Farm Mortgages												
102	54	Residential Mortgages - Insured or Guaranteed												
103	55	Residential Mortgages - All Other												
104	56	Commercial Mortgages - Insured or Guaranteed												
105	57	Commercial Mortgages - All Other												
106	58	Total Schedule B Mortgages (Sum of Lines 35 thru 57)	0		0				0		0			
107	59	Schedule DA Mortgages												
108	60	Total Mortgage Loans on Real Estate (Lines 58 + 59)	0		0				0		0			
109														
110	L033 - AVREC													
111	01	Unaffiliated Public												
112	02	Unaffiliated Private												
113	03	Federal Home Loan Bank												
114	04	Affiliated Life with AVR												
115	05	Affiliated Investment Subsidiary: Fixed Income - Exempt Obligations												
116	06	Fixed Income - Highest Quality												
117	07	Fixed Income - High Quality												
118	08	Fixed Income - Medium Quality												
119	09	Fixed Income - Low Quality												
120	10	Fixed Income - Lower Quality												
121	11	Fixed Income - In/Near Default												
122	12	Unaffiliated Common Stock - Public												
123	13	Unaffiliated Common Stock - Private												
124	14	Real Estate												
125	15	Affiliated - Certain Other (See SVO Purposes and Procedures Manual)												

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AVRDC - L030

	B	C	D	E	F	G	H	I	J	K	L	M	N	O
126	16	Affiliated - All Other												
127	17	Total Common Stock (Sum of Lines 1 through 16)	0	0	0	0			0	0	0	0		
128	18	Real Estate: Home Office Property (General Account only)												
129	19	Investment Properties												
130	20	Properties Acquired in Satisfaction of Debt												
131	21	Total Real Estate (Sum of Lines 18 through 20)	0	0	0	0			0	0	0	0		
132	22	Other Invested Assets: Exempt Obligations												
133	23	Highest Quality												
134	24	High Quality												
135	25	Medium Quality												
136	26	Low Quality												
137	27	Lower Quality												
138	28	In or Near Default												
139	29	Total with Bond Characteristics (Sum of Lines 22 thru 28)	0	0	0	0			0	0	0	0		
140	30	Investments with Underlying...Preferred Stocks: Highest Quality												
141	31	High Quality												
142	32	Medium Quality												
143	33	Low Quality												
144	34	Lower Quality												
145	35	In or Near Default												
146	36	Affiliated Life with AVR												
147	37	Total with Preferred Stock Characteristics (Sum of Lines 30 thru 36)	0	0	0	0			0	0	0	0		
148	38	Investments with Underlying...Mortgage Loans: In Good Standing Affiliated: Mortgages - CM1 - highest quality												
149	39	Mortgages - CM2 - high quality												
150	40	Mortgages - CM3 - medium quality												
151	41	Mortgages - CM4 - low medium quality												
152	42	Mortgages - CM5 - low quality												
153	43	Residential Mortgages - Insured or Guaranteed												
154	44	Residential Mortgages - All Other												
155	45	Commercial Mortgages - Insured or Guaranteed												
156	46	Overdue, Not in Process Affiliated: Farm Mortgages												
157	47	Residential Mortgages - Insured or Guaranteed												
158	48	Residential Mortgages - All Other												
159	49	Commercial Mortgages - Insured or Guaranteed												
160	50	Commercial Mortgages - All Other												
161	51	In Process of Foreclosure Affiliated: Farm Mortgages												
162	52	Residential Mortgages - Insured or Guaranteed												
163	53	Residential Mortgages - All Other												
164	54	Commercial Mortgages - Insured or Guaranteed												
165	55	Commercial Mortgages - All Other												
166	56	Total Affiliated (Sum of Lines 38 through 55)	0	0	0	0			0	0	0	0		
167	57	Unaffiliated - In Good Standing With Covenants												
168	58	Unaffiliated - In Good Standing Defeased With Government Securities												
169	59	Unaffiliated - In Good Standing Primarily Senior												
170	60	Unaffiliated - In Good Standing All Other												
171	61	Unaffiliated - Overdue, Not in Process												
172	62	Unaffiliated - In Process of Foreclosure												
173	63	Total Unaffiliated (Sum of Lines 57 through 62)	0	0	0	0			0	0	0	0		
174	64	Total with Mortgage Loan Characteristics (Lines 56 + 63)	0	0	0	0			0	0	0	0		
175	65	Investments with Underlying...Common Stock: Unaffiliated Public												
176	66	Unaffiliated Private												
177	67	Affiliated Life with AVR												
178	68	Affiliated Certain Other (See SVO Purposes & Procedures Manual)												
179	69	Affiliated Other - All Other												
180	70	Total with Common Stock Characteristics (Sum of Lines 65 thru 69)	0	0	0	0			0	0	0	0		
181	71	Investments with Underlying...Real Estate: Home Office Property (General Account Only)												
182	72	Investment Properties												

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AVRDC - L030

	B	C	D	E	F	G	H	I	J	K	L	M	N	O
183	73	Properties Acquired in Satisfaction of Debt												
184	74	Total with Real Estate Characteristics (Lines 71 through 73)	0	0	0	0			0	0	0	0		
185	75	Low Income Housing Tax Credit Investments: Guaranteed Federal Low Income Housing Tax Credit												
186	76	Non-guaranteed Federal Low Income Housing Tax Credit												
187	77	Guaranteed State Low Income Housing Tax Credit												
188	78	Non-guaranteed State Low Income Housing Tax Credit												
189	79	All Other Low Income Housing Tax Credit												
190	80	Total LIHTC (Sum of Lines 75 through 79)	0	0	0	0			0	0	0	0		
191	81	Residual Tranches or Interests: Fixed Income Instruments - Unaffiliated												
192	82	Fixed Income Instruments - Affiliated												
193	83	Common Stock - Unaffiliated												
194	84	Common Stock - Affiliated												
195	85	Preferred Stock - Unaffiliated												
196	86	Preferred Stock - Affiliated												
197	87	Real Estate - Unaffiliated												
198	88	Real Estate - Affiliated												
199	89	Mortgage Loans - Unaffiliated												
200	90	Mortgage Loans - Affiliated												
201	91	Other - Unaffiliated												
202	92	Other - Affiliated												
203	93	Total Residual Tranches or Interests (Sum of Lines 81 through 92)	0	0	0	0			0	0	0	0		
204	94	All Other Investments: NAIC 1 Working Capital Finance Investments												
205	95	NAIC 2 Working Capital Finance Investments												
206	96	Other Invested Assets - Schedule BA												
207	97	Other Short-term Invested Assets - Schedule DA												
208	98	Total All Other (Sum of Lines 94, 95, 96 and 97)	0	0	0	0			0	0	0	0		
209	99	Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)	0	0	0	0			0	0	0	0		
210														
211		Total Non-guaranteed Separate Account Assets	XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX			XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX		
212														
213		Total Assets including Non-guaranteed Separate Account Assets	XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX			XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX	XXXXXXXXXXX		
214														
215		**Notes:**												
216		Column 5 = Column 1 + Column 3												
217		Column 6 = Column 2 + Column 4												
218		Column 11 = Column 7 + Column 9												
219		Column 12 = Column 8 + Column 10												
220														

Stat-Reporting Application :

SaveAs(11/19/2024-8:53 AM)



December 16, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: 2024-07 Reporting of Funds Withheld and Modco Assets

Dear Mr. Bruggeman:

Thank you for the opportunity to comment on the above-referenced item that was re-exposed by the Statutory Accounting Principles (E) Working Group (SAPWG). The intent of this item was to make it easier to identify assets that are subject to a funds withheld or modified co-insurance arrangements through updated reporting in the financials.

Interested parties previously submitted comments in response to the initial exposure indicating that, under certain reinsurance arrangements, it would not be possible to identify or report specific assets for funds withheld as proposed in this exposure. To further clarify the point in the original comment letter, we would like to provide the following example, which is similar to several of our reinsurance arrangements:

An insurer may have a reinsurance arrangement transferring insurance risk whereby the terms of the agreement require funds to be withheld equal to the amount of ceded statutory reserves. The funds are withheld to permit statutory credit for nonadmitted reinsurance. The insurer's financial statements would reflect a ceded funds withheld liability. In this case, there is no investment risk being passed to the reinsurer and no specific assets separately identified. As such, the information proposed to be disclosed in the newly developed Schedule S page would not be applicable to this type of arrangement with these characteristics. This type of reinsurance arrangement is often seen for health insurance.

In the re-exposed item, SAPWG staff noted that the Life RBC formula reflects a reduction in RBC charges for modco and funds withheld assets. This reduction is by asset type and often by asset designation. SAPWG staff also indicated the fair value of the assets withheld is also reported in the reinsurance Schedule S and F as collateral. As such, SAPWG staff feels there may be a disconnect.

In response to these points, it is important to note that assets are only required to be identified for Life RBC calculation purposes if the insurer is passing investment risk to the reinsurer. For the types of arrangements with the characteristics described in our example above, this RBC reporting requirement does not apply. In addition, upon review of the instructions for Schedule S, we were unable to locate a place in Schedule S where we are required to report fair value of the assets withheld as collateral. The fair value reporting requirement applies to assets that are held in a trust or are otherwise placed on deposit by the reinsurer; however, in the example given above, the assets are simply investments within the ceding company's general account and are not segregated or separately identified.

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We respectfully request the Working Group limits the application of this guidance and Schedule S reporting requirement to reinsurance arrangements under which investment risk is being passed to the reinsurer or where the terms of the reinsurance arrangement require a segregation or specific identification of assets used to collateralize the ceded reserves. Arrangements without such characteristics should be excluded from the reporting requirements as they are not applicable.

Please feel free to contact me if you have any questions or would like to discuss the above recommendation.

Sincerely,

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cc: NAIC SAPWG Staff

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1c-comment letters/04 - uhc comments 2024-07 sapwg funds withheld and modco121624.docx

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December 16, 2024

Updated January 30, 2025: See Ref #2022-14 and Repurchase Agreements beginning on page 9 (both indicated by ***)

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due December 16th

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due December 16 th.

Ref #2022-14: *New Market Tax Credits**

On May 16, 2023, the Working Group exposed revisions to SSAP No. 93 – *Investments in Tax Credit Structures,* and 94R – *State and Federal Tax Credit*. The revisions to SSAP No. 93 propose adoption with modification of ASU 2023-02 and expansion of the SSAP scope to include all tax credit programs and tax investment structures. The revisions to SSAP No. 94R expand the scope of the SSAP to include all state and federal tax credits whether purchased or allocated, and that tax received should be recorded at face value with losses realized immediately and gains deferred.

Interested parties have no comments on this item.

Ref #2023-24: Current Expected Credit Losses (CECL)

The Working Group exposed for comment an Issue Paper to document for the historical record the Generally Accepted Accounting Principles impairment guidance which existed prior to the

implementation of *Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses* (CECL). In January 2024, the Working Group rejected CECL for statutory accounting purposes and directed NAIC staff to prepare this issue paper. Since many SSAPs adopted pre-CECL impairment guidance, the Working Group wanted to ensure that any guidance which was superseded by CECL was readily available for future use.

Interested parties agree with the concepts noted in the draft Issue Paper but would like additional time to address some of the descriptions of current GAAP practice versus statutory accounting to ensure that the descriptions are technically correct.

Ref #2024-04: Conforming Repurchase Agreements Assets

On August 13, 2024, the Working Group exposed this agenda item along with a memo detailing accounting and reporting guidance for repurchase agreements and securities lending transactions.

Interested parties have repeated the memo below and provided comments in italics following each section.

Overview: Fundamentally, securities lending and repurchase/reverse repurchase (Repo) transactions perform similar functions and are entered into for short-term collateralized funding/lending. Although some articles identify that the type of collateral exchanged (security or cash) is a key difference, from discussions with industry cash or securities can be used as collateral under either a security lending or repo agreement. Industry has identified that the counterparty is a key difference between the transactions.

Although similar in function, the accounting and reporting for securities lending and repurchase transactions are different under statutory accounting even when both are accounted for under the "secured borrowing" approach. (All scenarios below focus on secured borrowing accounting, and not as a "sale," as that is the more prevalent accounting approach.)

This memo intends to document the current accounting guidance and identify how NAIC staff believe accounting and reporting should be reflected. The Working Group is requesting comments on this memo, particularly within the established notes. Subsequently, NAIC staff plan to propose statutory accounting and reporting changes to reflect a consistent approach between securities lending and repurchase transactions.

The guidance for securities lending / borrowings and repo agreements are *in SAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Although other aspects of the SSAP are applicable, focused guidance for these transactions are in the following paragraphs:

- Securities Lending: Paragraphs 85-92.
- Securities Borrowing: Paragraphs 93-95
- Repurchase Agreements: Paragraphs 102-104 & 113
- Reverse Repurchase Agreements: Paragraphs 111-113

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Broad concepts for secured borrowing are in paragraph 19. The concepts for securities lending differ from this guidance with the requirement to recognize items on balance sheet with the ability to sell/repledge collateral. Disclosure guidelines for these transactions are in paragraph 28.
The "conforming" securities lending guidelines are captured in the RBC instructions. The full detail of the requirements is included as an appendix to this memo, but collateral requirements include:

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

Securities Lending – Reporting Entity Lends a Security and Receives Collateral in Exchange:
A security lending transaction involves the temporary transfer of securities from one party (security lender) to another party (security borrower) and with the lender receiving collateral from the borrower to protect against the risk of loss. The lender receives a fee for the use of the security. Under statutory accounting guidance, the accounting for security lending depends on whether the reporting entity has the ability to pledge or sell the collateral received.

1. Lending Entity Cannot Sell / Repledge Security Collateral Received:

a) Reporting entity lends a security under a secured borrowing agreement. The reporting entity retains the lent security on books and codes it as a restricted asset.

b) Reporting entity lender does not recognize security collateral received as an asset and does not recognize an obligation to return the collateral.

c) If the fair value of the collateral received drops below 100% of the fair value of the loaned security, then the reporting entity (lender) is to nonadmit a portion of loaned security (which is still reported on the books). The amount nonadmitted should be the difference between the collateral and the security reported on the books. (This calculation is done at any point in time – so for a lent $100 bond, if the fair value of the bond declines to $90, then the collateral comparison would be done to the current FV of the bond, and not the FV at the time the security was lent. So, if collateral was received at $102, and declined to $90 (matching the bond), nonadmittance would not be required.) The comparison is also completed in aggregate by counterparty, so if the collateral for one security was to appreciate in value, and the collateral for another was to decline, as long as the combined collateral value continued to represent 100% of the fair value of the loaned securities, additional collateral would not be required.

The Restricted Asset / RBC Impact is as follows:

d) The retained asset lent to the counterparty should be identified as a restricted asset. This loaned asset shall be captured on general interrogatory (GI) line 25.04 or GI line 25.05 based on whether the security lending arrangement is considered to be a 'conforming' security lending program. Amounts reported on these lines flow to LR017 (Off-Balance Sheet and Other Items), lines 1 and 2. Items captured in GI line 25.04 (conforming) receive a 0.0020 RBC charge. Items captured in GI line 25.05 (nonconforming) receive a 0.0126 RBC charge. There is no current disclosure on the type of collateral received for these off-balance sheet programs. As such, regulators cannot verify from the financial statements whether the program complies with the "conforming" program requirements. However, as the collateral cannot be sold/repledged, if the collateral complies with the conforming requirements, there would be no change to that assessment over the duration of the transaction. ***(Note 1)***

e) As the collateral asset is not recognized on book of the lender, there is no RBC asset (C-1) charge. As the collateral asset is not recognized, there is no restricted asset reporting or RBC restricted asset charge. The restricted asset charge is placed on the asset that is lent but still retained on the books as discussed above in paragraph 1d. ***(Note 2)***

Note 1: Should the type of collateral received in these programs be captured in a financial statement disclosure to allow for regulator verification of the "conforming" program guidelines? Additionally, it has been noted that the admittance calculation focuses solely on the fair value comparison of the collateral received to the security lent. However, there is no current guidance that assesses admittance based on the quality/type of collateral received. Under the current guidance, residuals or low-quality assets could be received and there is no documentation of this type of collateral for certain sec lending and repo programs. Even if these programs would not qualify as conforming, there is a question on whether admittance restrictions should exist based on the collateral received from the counterparty.

Interested parties' response: Given the deferral of the conforming repo proposal, only conforming sec lending programs will be subject to the conforming guidelines. In these programs, the insurer attests to the conforming criteria. One possible additional disclosure could be footnote like footnote 5.E.8 for repo, whereby the collateral received is specified by asset type.

In typical security lending programs, the insurer receives cash in these transactions, but the master agreement between the counterparties also allows the insurer to receive high-quality collateral – restrictively defined as "acceptable collateral" - which must be marked to market regularly for ongoing margining purposes. Regardless of whether the program is conforming or not, the combination of daily margining and the restrictive definition of "acceptable collateral" should provide NAIC with sufficient comfort that additional admittance restrictions on collateral received would be duplicative.

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Note 2: NAIC staff believes there is inconsistent application of the current guidance as there is a disconnect in language between RBC and the Blanks on whether the collateral received or the lent asset is identified as a restricted asset. The blanks instructions in GI 25.04 and GI 25.05 identify the "Amount of Collateral." The lines in RBC identify "Loaned to Others." This inconsistency in terminology likely causes confusion on whether the amount reported should be the lent security or the collateral received in exchange. NAIC staff suggest clarifying terminology for consistency purposes, clarifying that the loaned asset retained on book should be the amount reported as restricted that flows through all schedules.

Interested parties' response: *We agree that consistent terminology should be established between Blanks and RBC to clarify that the loaned security is identified as a restricted asset. We suggest that Blanks references to "Amount of Collateral" in GI 25.04 and GI 25.05 should be changed to "Loaned to Others," consistent with RBC.*

2. Lending Entity Can Sell / Repledge Collateral Received – (Also Applies to Cash Collateral)

a) Reporting entity lends a security under a secured borrowing agreement. The reporting entity retains the lent security on books and codes it as a restricted asset.

b) Reporting entity lender recognizes collateral received from the counterparty on its book and recognizes a liability to return the collateral. (This collateral is reported on Schedule DL.) If security collateral is captured directly on the investment schedules, the collateral is **not** coded as a restricted asset. *(See paragraph 2f.)*

c) If the fair value of the collateral received drops below 100% of the fair value of the loaned security, then the reporting entity is to nonadmit a portion of loaned security (which is still reported on the books). The amount nonadmitted should be the difference between the collateral and the security reported on the books. (This calculation is done at any point in time – so for a lent $100 bond, if the fair value of the bond declines to $90, then the collateral comparison would be done to the current FV of the bond, and not the FV at the time the security was lent. So, if collateral was received at $102, and declined to $90 (matching the bond), nonadmittance would not be required.) The comparison is also completed in aggregate by counterparty, so if the collateral for one security was to appreciate in value, and the collateral for another was to decline, as long as the combined collateral value continued to represent 100% of the fair value of the loaned securities, additional collateral would not be required. ***(Note 3 & Note 4)***

The Restricted Asset / RBC Impact is as follows:

d) The retained asset lent to the counterparty should be identified as a restricted asset. This loaned asset shall be captured on GI line 25.04 or GI line 25.05 based on whether the security lending agreement is considered to be a 'conforming' security lending program. Amounts reported on these lines flow to LR017 (Off-Balance Sheet and Other Items),

lines 1 and 2. Items captured in GI line 25.04 (conforming) receive a 0.0020 RBC charge. Items captured in GI line 25.05 (nonconforming) receive a 0.0126 RBC charge. ***(Note 5)***

e) The current collateral recognized on the balance sheet is subject to the corresponding asset (C-1) RBC charge. (This occurs directly from the investment schedule, or indirectly from Schedule DL if the program is administered by a third-party administrator.) The RBC charge depends on the form of the collateral. (This recognition occurs regardless of whether the original collateral is reinvested.)

f) The collateral reported on book as it can be sold/repledged, is not coded as a restricted asset as there is an offsetting liability recognized for the obligation to return the collateral. Identifying both the lent security and the on-book collateral as restricted assets, particularly with the offsetting liability to return the collateral would result in a double-counting of restricted asset charges for the same transaction.

g) On day 1, both the collateral asset received and liability to return are recognized at fair value. Subsequently, the asset is measured pursuant to the applicable SSAP and the liability to return shall be adjusted as needed to reflect the current fair value of the collateral originally received. If the collateral received is reinvested, the resulting asset shall be accounted for pursuant to the applicable SSAP. As the measurement method for the collateral asset on book may not reflect fair value, this may result in a disconnect between the collateral asset and liability to return reported, but the reporting entity's liability to return the collateral shall always reflect the full obligation (fair value) to return collateral originally received.

Note 3: As the collateral can be sold/repledged, there is a question on the application of the admittance provisions in paragraphs 91-92 of SSAP No. 103. That guidance is focused on the fair value of the original collateral received in comparison to the fair value of the security lent. Once the collateral has been reinvested, the reporting entity is responsible for the reinvestment risk and the counterparty is not responsible for fair value changes of the reinvested security. Although a position could be taken that the fair value of the collateral originally received should continue to be compared to the fair value of the lent security to determine if more collateral needs to be provided, with the current financial statement reporting, this information is not captured to allow assessments once the collateral has been reinvested allowing regulators to verify the admittance provisions.

Interested parties' response: *We do not believe that there is any ongoing need to compare the fair value of the original collateral received in comparison to the fair value of the security lent. One salient feature of securities lending and repurchase agreement transactions is that exchange of variation margin covers the differences that emerge over time between the original market value of the security lent and the original market value of the collateral received. The margining process maintains equality between the market value of the collateral received – plus or minus any variation margin – and the market value of the security lent. This market structure obviates the need for regulators to generate an admittance test on whether the fair value of original collateral received compares with the fair value of the security lent.*

Existing disclosures also provide regulators with sufficient visibility:

1. *Footnote 5.E.5 b: The reinvestment portfolio acquired with cash received consisted principally of high quality, liquid, publicly traded long term bonds, short term investments, cash equivalents, or held in cash. If the securities sold or the reinvestment portfolio become less liquid, the Company has the liquidity resources of most of its general account available to meet any potential cash demands when securities are returned to the Company.*
2. *Footnote 5.E.5 provides a maturity schedule for the collateral received.*
3. *Schedule DL provides full transparency and look-through to the assets in the reinvestment portfolio.*

In summary, existing financial statements disclose the risk and maturity summary in the footnotes and provide a full schedule for reinvested assets. The fair value security lent and collateral received continue to be matched via the margining process.

Note 4: With regards to the admittance calculation, there is also a question on application when the original collateral still covers 100% of the BACV of the loaned security but does not meet the requirement for 100% of the loaned security's fair value. As an example, if the loaned security at amortized cost has a BACV of $90, but had a fair value of $100 when loaned, the guidance in paragraph 91 requires collateral of $102 at the onset of the transaction. If the original collateral was to decrease in fair value to $98, it would no longer comply with the guidance in paragraph 91 and nonadmittance of the loaned security for $2 is expected under the guidance ($100 - $98). However, as the loaned security is reported at BACV of $90, the collateral still covers the full reported value of the loaned security. If the counterparty was to default, the reporting entity would eliminate the loaned security ($90) and the liability to return the collateral ($98) from the books and retain the collateral asset as their own. This transaction would result in an $8 gain for the reporting entity. If the loaned security had been nonadmitted by $2 prior to the default due to the FV decline of the collateral, there would have been a surplus hit of $2 for the nonadmittance. Upon the counterparty default, in addition to the $8 gain, there would have then been a surplus bump of $2 with the elimination of the nonadmitted asset. *(It is noted that if the fair value for the collateral asset had been retained, the reporting entity would have had a greater gain, but they are still fully covered based on how the loaned asset is reported.)* NAIC staff requests confirmation of the admittance guidance and its application from regulators, particularly when the fair value of the collateral continues to cover the BACV of the loaned security.

Interested parties' response: *We agree with NAIC staff's recommendation that admittance calculations should be based on the fair value of the original collateral and loaned security, as opposed to book value. As discussed above, the margining provisions of these contracts ensures that market values, rather than book values, remain aligned over the term of each transaction.*

Note 5: As the collateral received can be sold/repledged, there is a question on the application of the "conforming security lending" collateral requirements. From a broad review of financial statements, collateral reported on Schedule DL was identified as outside of the conforming parameters, but the security lending program was identified as "conforming" with the lower RBC charge. NAIC staff

recommend clarification on the application of the "conforming" requirements. Particularly, if the intent is to permit a lower RBC charge due to the liquidity / stability of certain types of collateral, then it may be appropriate to require the collateral to always comply with the "conforming" provisions regardless of if it has been reinvested by the reporting entity.

Interested parties' response: *We believe that the narrow definition of "acceptable collateral," which is intended to be applied **only** to the original collateral received against the lent security, has been misapplied to the reinvestment portfolio. Acceptable asset classes in the reinvestment portfolio are defined in the portfolio's Investment Guidelines, not by the "acceptable collateral" criteria. Applying the narrow definition of "acceptable collateral" to the reinvestment portfolio could disrupt the economic viability of these programs.*

3. <u>Securities Borrowing – Entity Borrows a Security and Provides Collateral in Exchange</u>

a) Reporting entity borrower retains security collateral provided to counterparty on book and codes it as a restricted asset. (If providing cash in exchange for the borrowed security, then the cash is derecognized with a receivable for the return.) ***(Note 6)***

b) Reporting entity borrower does not recognize the borrowed security on their books, unless the reporting entity sells the borrowed security or the counterparty defaults. If the reporting entity sells the borrowed security, the cash received or reinvested asset is recognized with an obligation (liability) to return the borrowed security. Pursuant to paragraph 94 of SSAP No. 103, assets equivalent to the fair value of the borrowed security shall be coded as a restricted asset. Specific guidance exists in SSAP No. 103 for when borrowed securities are used to settle a short-sale. (A counterparty default would always result with an unwinding of the transaction with each party reporting the asset they have in their possession as their resulting asset.) ***(Note 7 & 8)***

The Restricted Asset / RBC Impact is as follows:

c) The retained asset (provided as collateral to a counterparty) is still on the reporting entity's investment schedules and should continue to receive the RBC asset C-1 charge. It should also be coded as a restricted asset. Due to the reporting lines available, it could be coded as "collateral held under securities lending agreements" or as an "other" restricted asset and captured in GI 26.32. If captured as a collateral within a security lending agreement, would be captured on GI line 25.04 or GI line 25.05 based on whether it is from a 'conforming' security lending program. Amounts reported on these lines flow to LR017 (Off-Balance Sheet and Other Items), lines 1 and 2. Items captured in GI line 25.04 (conforming) receive a 0.0020 RBC charge. Items captured in GI line 25.05 (nonconforming) receive a 0.0126 RBC charge. If reported as an "other" restricted asset, it would be captured on GI 26.32 with a 0.0126 RBC charge.

d) There would be no RBC impact for the borrowed security unless it is sold. At that time, the reinvested asset would be recognized and subject to an RBC asset C-1 charge. This

asset (or an equivalent of other assets) would be identified as restricted. This is likely "collateral held under security lending agreement" and reported based on conforming /nonconforming in GI line 25.04 (0.0020 factor) or 25.05 (0.0126 factor).

Note 6: A security borrowing transaction is the flipside of the security lending transaction, with the reporting entity operating on the opposite side as borrower instead of lender. With this dynamic, it is presumed that the same restricted asset categories, and whether it is a conforming program, would be determinants in reporting the restricted asset and in the resulting RBC charge. NAIC staff requests confirmation of this assessment. (A security borrowing is the transaction, and it is accounted for as a "secured borrowing" – this terminology can be confusing when discussing the design.)

Interested parties' comments on Notes 6-8: *From the insurer's perspective, securities borrowing transactions have a very different structure than securities lending transactions. Insurers have not, and do not anticipate, requesting the establishment of "conforming securities borrowing" programs with changes to RBC.*

Note 7: The guidance for a security borrowing could result with restricted asset reporting for both the collateral provided (if not cash collateral) as well as for the reinvested borrowed securities that the reporting entity has sold. NAIC staff notes that this could be a double hit of restricted asset charges and recommends comments on paragraph 94 of SSAP No. 103 on the elimination of the restricted asset requirement for the assets received from the sale of the borrowed security. It is noted that the reporting entity would already have a liability recognized to return the borrowed security to the counterparty.

See interested parties' comments above.

Note 8: For security borrowing transactions, it is identified that both a receivable and payable from the counterparty could be recognized. A receivable - if cash was originally provided as collateral for the return of the cash - and a payable - if the reporting entity sold the borrowed security for the obligation to return the security. This dynamic could result in a netting of the transactions under SSAP No. 64. If netted, then the regulators would not be able to identify these aspects within the financial statements, but the provisions that permit netting under SSAP No. 64 (legal right to offset) may be present.

See interested parties' comments above.

Repurchase Agreements***

Repurchase agreements, by definition, are agreements in which a reporting entity sells a security and simultaneously agrees to repurchase the security or a substantially similar security at a stated date and price. Repurchase agreements are functionally similar to securities lending. These transactions are generally captured as "secured borrowings" due to the requirement to repurchase the security transferred but could qualify as "sale" transactions. As very few (if any) are captured as sales under statutory accounting, this assessment will only focus on those captured as "secured borrowings."

Reporting entities can operate on both sides of repurchase agreements. If the reporting entity is selling a security and receiving cash (cash taker), it is considered a repurchase agreement. If the reporting entity is buying a security and providing cash (cash provider) it is considered a reverse repurchase agreement. SSAP No. 103 is explicit that only short-term repo agreements (with a stated short-term maturity date of 365 days or less) are allowed as admitted assets. Long-term repo agreements (with maturity dates in excess of 365 days) are nonadmitted.
There is no current concept for a "conforming repurchase agreement" and incorporating this concept, allowing for a lower RBC charge, was the request of the ACLI to the Life RBC Working Group.

4. **Repurchase Agreement – Reporting Entity Sells Security and Receives Cash / Collateral**

a) Reporting entity (cash taker) retains sold security on book and codes it as a restricted asset. This would remain an asset of the reporting entity unless the reporting entity defaults under the terms of the secured borrowing agreement. If that occurs, the reporting entity would derecognize the asset and eliminate the obligation to return the cash collateral per subparagraph (b).

b) Reporting entity recognizes cash received and obligation to return cash. (If security collateral is received, it is off-balance sheet unless that collateral is sold by the reporting entity. If sold, the reporting entity recognizes the proceeds from the sale and the obligation to return the collateral to the repo counterparty.) This process for security collateral received under a repurchase agreement is different from securities lending. Under security lending, if collateral received can be sold or repledged, even if it is not sold or repledged, the collateral is reported on balance sheet with an obligation to return. The disclosure guidance for repurchase agreements varies significantly from securities lending transactions as Schedule DL does not apply to repurchase agreements. As such, for repurchase agreements, there is no detail that identifies collateral held when the collateral can be sold/repledged. ***(Note 9)***

c) For repurchase agreements the reporting entity should receive proceeds (collateral) with a fair value of at least 95% of the fair value of the sold security. So, if the security has a FV of $100, proceeds (collateral) of $95 is required. If the FV of the proceeds (collateral) is not sufficient, then nonadmittance of the "sold" security for the amount of the shortfall is required. So, if only 93% collateral was received, the security "sold" but still reporting on-book would only be admitted for $98 with nonadmittance of $2. ***(Note 10)***

The Restricted Asset / RBC Impact is as follows:

a) The retained asset (sold to the counterparty) is still on the investment schedule and should continue to receive the RBC asset (C-1) charge. It should also be coded as a restricted asset as "subject to repurchase agreements" and captured in GI 26.21. This

would then be captured in LR017 on line 3, "subject to repurchase agreements" and would receive a 0.0126 RBC charge. Under SSAP No. 103, repo agreements must be short-term to be admitted. If the repo agreement extends beyond 365 days, then the asset sold (retained on the book) would be identified as a nonadmitted asset.

b) The cash proceeds (collateral) would be recorded as cash and flow through on Schedule E - Part 1 - Cash to LR012 with a .0039 RBC charge. If the cash is used to acquire another security, then the acquired security would be reported on the investment schedules and flow through to RBC accordingly based on the investment.

Note 9: Due to the similarities in overall function between securities lending and repurchase agreements, NAIC staff supports consistent accounting, reporting and disclosures. NAIC staff recommends expanding Schedule DL to capture repurchase agreements, and a reassessment of the repurchase agreement disclosures to determine whether the level of detail should be retained.

Interested parties' response: Extending Schedule DL to repurchase agreements makes sense only for any future "conforming repo" programs that have segregated assets in the reinvestment portfolio. In certain cases, repo can be used for secured borrowing whereby the cash is used for alternative purposes and not explicitly reinvested. Since industry is no longer requesting the establishment of conforming repo programs, we believe that Schedule DL should not be extended to repo programs at this time.

Note 10: The same concept issues exist for the nonadmittance of reported securities under repo transactions than what exist under the securities lending transactions. Under current guidance, if the fair value of the sold security was to increase, more proceeds (collateral) is required or the sold security is subject to nonadmittance. If collateral was reinvested, the comparison would have to be based on the original collateral received and not the reinvested collateral. Also, there is the question on nonadmittance when the collateral received still covers the BACV of the sold security.

Interested parties' response (similar to Note 3): One salient feature of securities lending and repurchase agreement transactions is that exchange of variation margin covers the differences that emerge over time between the original market value of the security lent and the original market value of the collateral received. The margining process therefore aligns the ***market value*** of the collateral received – plus or minus any variation margin – with the ***market value*** of the security lent. This market structure obviates the need for regulators separately to test the market value of original collateral received in comparison with the fair value of the security lent. Additionally, repo funding proceeds may be used for purposes outside of a reinvestment portfolio which results in a lack of asset base to test against for nonadmittance.

Reverse Repurchase Agreement – Reporting Entity Buys Security and Provides Cash / Collateral

a) Reporting entity (cash provider) acquires security from counterparty but does not report the security on their investment schedule. (The reporting entity would recognize the asset if the counterparty defaulted on the agreement.) ***(Note 11)***

i. If the reporting entity sells the acquired security, the reporting entity would recognize the cash proceeds from the sale and an obligation to return the security to the counterparty. If the cash proceeds are reinvested, then the acquired investment would be on the applicable investment schedule.

b) Reporting entity derecognizes the cash provided to acquire the security and recognizes a receivable for the cash return. This is captured as a short-term investment on Schedule E-2. If the reverse repo agreement was long-term, it shall be nonadmitted.

i. If the reporting entity provides security in exchange for the security (instead of cash), the security would remain on the reporting entity's investment schedules, coded as a restricted asset.

c) For reverse repurchase agreements the reporting entity should receive securities with a fair value of at least 102% of the purchase price (cash or securities transferred). So, if the cost of the transaction is $100, the reporting entity should receive securities worth $102. ***(Note 12)***

The Restricted Asset / RBC Impact is as follows:

d) The acquired asset is not reported unless the counterparty defaults or unless the reporting entity sells the acquired assets. Unless one of these things occurs, there is no RBC impact for the acquired asset under a reverse repo. (If those transactions occur, then the RBC is determined by the resulting security reported on the investment schedule.)

e) The receivable for the return of the cash collateral would be recorded as a short-term investment on Schedule E – Part 2 and flow through to LR012 with a .0039 RBC charge. This receivable would also be coded as restricted as an "asset subject to a reverse repurchase agreement" on GI 26.23. This would flow to LR017 line 6 and would receive a 0.0126 RBC charge. ***Note 13***

Note 11: The SSAP No. 103 guidance for reverse repo transactions does not have an explicit nonadmittance component if the % threshold is not met. Clarification on what should occur if the adequate collateral is not received / retained is recommended. Additionally, it has been noted that there is no current guidance that assesses admittance based on the quality/type of collateral received. Under the current guidance, residuals or low-quality assets could be received and there is no documentation of this type of collateral for certain sec lending and repo programs. Even if these programs would not qualify as conforming, there is a question on whether admittance restrictions should exist based on the collateral received from the counterparty.

Interested parties' comments on Notes 11-13: In terms of general quality of collateral received in reverse repo transactions, we do not believe there should be regulatory restrictions on the type of

collateral that is eligible to be received, other than it being a permitted investment for the reporting entity. The yield earned on the transaction and haircut charged reflects the quality of the collateral.

Maintenance of the collateralization threshold is governed by the legal document (MRA or MSLA) between the counterparts. While collateralization threshold is one of the criteria for a conforming securities lending program, there is no intention to establish conforming reverse repo programs. We believe that regulators should derive comfort on collateralization thresholds from the existing legal agreements between counterparts.

Note 12: SAP does not currently capture details on securities acquired upon the sale of the asset acquired under a reverse repo. The note disclosures only detail aggregate amounts.

See interested parties' comments on Notes 11-13 above.

Note 13: The guidance does not explicitly indicate that the short-term receivable recorded for reverse repurchase transactions should be coded as a restricted asset and taken to GI 26.23. However, as the restricted asset note detailed in SSAP No. 1 and GI 26.23 both capture "assets subject to reverse repurchase agreements," this reference can only refer to the short-term receivable as there is no other asset reported on the books from the transaction. Assessment may be warranted on identification of restricted assets on reverse repurchase transactions.

Interested parties' comments: Interested parties do not believe that there is a cogent rationale for restricting the short term lending receivable. Other short-term lending receivables - CDs, CP and Short Term ABS – are not considered "restricted". Nothing in these short term loans implies lack of exclusive control or encumbrances or third party interests prohibiting the insurer from using these short term loans (or the collateral obtained therefrom at 102% FMV or greater) to satisfy policyholder obligations.

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Appendix A – "Conforming" Securities Lending Guidance from RBC Instructions

Line (1) Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

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

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

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

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

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

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

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

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

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

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

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

* * * *

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Thank you for the opportunity to comment on the above items. Please feel free to contact either one of us if you have any questions or would like to discuss further.
Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/1c-comment letters/05 - dkb2426 - 1.30.25.docx

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January 31, 2025

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due January 31st

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due January 31st.

Ref #2023-28: Collateral Loan Reporting

The Working Group re-exposed this agenda item detailing the proposed reporting lines for Schedule BA and AVR. This item was re-exposed to allow for concurrent exposure with blanks proposal 2024-19BWG. Comments received by the Blanks (E) Working Group and the SAPWG will be reviewed collectively.

Interested parties have responded (responses are in *italics*) to the following elements for which feedback was requested during the exposure:

1) Should collateral loans backed by mortgage loans be included in the new collateral loan category, or should those continue to flow through the "Investments with the Underlying Characteristics of Mortgage Loans" permitted during the interim as the long-term resolution?
Interested parties believe the 'Collateral Loans – Backed by Mortgage Loans' Schedule BA subcategory should continue to flow through the "Investments with the Underlying Characteristics of Mortgage Loans" AVR category until a permanent solution is identified.

   If captured in the new collateral loan AVR category, to what extent should the underlying characteristic lines detailing quality / past due / foreclosure status (AVR lines 38-64) be duplicated?

   Interested parties believe there should be just 1 category in AVR for 'Collateral Loans – Backed by Mortgage Loans' and not bifurcate between quality / past due / foreclosure status. The accounting for Collateral Loans will be able to appropriately report the fair value of the underlying collateral.

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2) What additional reporting lines (breakouts) of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment purposes?

Interested parties believe no changes in the following breakouts are warranted at this time. We will actively engage in the RBC discussions with the appropriate NAIC Working Group on this issue.

As it relates to the corresponding Blanks Working Group exposure 2024-19BWG, we have requested a re-exposure / deferral to address this item which was exposed for the first time. Our question to the Working Group is: should Ref #2023-28 also be re-exposed / deferred to align these 2 items?

Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts

During the NAIC Summer National Meeting, the Working Group exposed revisions to *SSAP No. 56—Separate Accounts,* as shown below as "2024 Summer National Meeting Exposed Revisions," to allow for initial review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general and book-value separate accounts. The Working Group also requested comments from regulators and industry on the noted questions, which are highlighted in grey in the exposure draft. This item was originally exposed with a longer comment period ending November 8, 2024, with the comment period extended to January 31, 2025. This item was not discussed in detail during the 2024 Fall National Meeting but is planned for discussion in the interim after that meeting, or during the 2025 Spring National Meeting.

Interested parties continue to support clarification of statutory accounting guidance for Book Value Guaranteed Separate Accounts. ACLI is very appreciative of the on-going dialogue with SAPWG and the IMR Ad Hoc Working Group and stands ready to continue working with the NAIC on this initiative.

ACLI would like to provide specific comments regarding existing SSAP 56 guidance and proposed changes to SSAP 56

The ACLI is in support of much of the exposed guidance updates. Particularly, we continue support for the proposed guidance for transfers between General Account and Separate Account (paragraphs 19 – 22). The ACLI previously provided a detailed presentation entitled "ACLI Derivative IMR Solution Proposal" ("ACLI Solution," included as Appendix I) to the IMR Ad Hoc Working Group. Discussions of the ACLI solution at the NAIC Ad Hoc IMR WG were the impetus for this exposure. The exposed guidance updates to SSAP 56 largely reflect the findings from the ACLI Solution presentation and, should it be beneficial to regulators, the ACLI would appreciate the opportunity to present to the full SAPWG membership and any additional interested regulators.

While in support of much of the exposed guidance updates, the ACLI would like to further discuss some of the proposed guidance for Book Value Guaranteed Separate Accounts:

Paragraph 22 requires that all other transfers of assets between Separate Account and General Account, excluding those assets sales for cash transfers already described in Paragraphs 19 through 21, be recorded at fair value. In order to avoid any potential for diversity in practice, we believe guidance should be added clarify that IMR should be utilized for these transactions in a similar way to how IMR is utilized in the transfer for cash transactions. The ACLI recommends at minimum the addition of the

following phrase (change highlighted in red): "Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value with gains and losses offset to IMR similar to asset sales for cash guidelines as detailed in Paragraphs 20 & 21…". Should it be decided that more detailed instruction be required, the ACLI would like to request some additional time to build out a more detailed proposal.

Paragraph 24 identifies the in-scope Separate Account population as "*…separate accounts that would qualify for separate account classification under U.S. GAAP…".* We do not believe the direct reference to US GAAP regulation within the SSAP to be appropriate, especially as not all insurers perform U.S. GAAP filings and would not be sufficiently expert in U.S. GAAP Separate Account guidance. Language surrounding guaranteed separate accounts is already included in Paragraph 18. Rather than creating separate language to identify non-guaranteed separate accounts which do not require AVR, direct reference to a "population excluding that population identified in Paragraph 18 would both provide clarity without reference to U.S. GAAP guidance and provides inclusive language ensuring the entire population of separate accounts to fall in either bucket rather than risk any population that may not fall in either the U.S. GAAP standard or the Paragraph 18 standard.

Paragraphs 34.C.iii. and 39.F. appear to be seeking additional disclosure (within General Account and Separate Account filings, respectively) of the assets supporting book value separate accounts, as specific reference is made to product types identified as book value in Paragraph 18 (PRT and RILA), We believe this additional disclosure to be redundant to the Book Value column reporting in the Separate Account Asset Page, providing no additional detail or value to what has already been reported. While the ACLI recognizes that there is no prohibition of domicile approval of non-guaranteed book value separate account with Statutory guidance surrounding Plan/Memorandum of Operations process, we feel that proposed guidance within SSAP 56 Paragraph 25 eliminates that probability: "*Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts…".* Due to the Paragraph 25 requirement that all book value separate accounts shall be in support of guaranteed separate accounts where the insurer bears the risk of investment performance, it is not probable that the Book Value column breakout within the Separate Account Assets page filing will include any population other than the Guaranteed population and thus cannot not diverge from the disclosures proposed in Paragraphs 34.C.iii. and 39.F. The ACLI requests that these disclosure requirements be removed from SSAP 56.

Once again, the ACLI appreciates the opportunity to provide comment and looks forward to continued dialogue and collaboration on Book Value Separate Account guidance. If you have any questions regarding this letter, please do not hesitate to contact us.

Ref #2024-16: Repacks and Derivative Investments

On December 17, 2024, the Working Group exposed proposed annual statement instructions, as shown in the exposure draft under "December 2024 Proposed Revisions to Annual Statement Instructions" to clarify that held debt securities that are sold to an SPV and then reacquired reflecting the addition of derivative or other components shall be reported as a disposal and reacquisition in the investment schedules. With this exposure, the Blanks (E) Working Group was requested to expose a blanks proposal sponsored by the Statutory Accounting Principles (E) Working Group at the 2024 Fall National Meeting.

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Interested parties have no comments on this item.

Ref #2024-20: Restricted Asset Clarification

On November 17, 2024, the Working Group moved this item to the active listing categorized as a SAP clarification and exposed revisions illustrated in the recommended changes to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement instructions/template for the restricted asset disclosure in Note 5L to specify how Modco and FWH assets reported within a ceding company's financial statements shall be reported. The exposed revisions also include a new disclosure to identify whether Modco/FHW assets are pledged by the ceding entity as well as expanded disclosures to detail differences between what is reported in the restricted asset note and what is in the general interrogatories.

Interested parties appreciate the opportunity to comment on this item after it was re-exposed for comment by the Working Group during the NAIC Fall National Meeting in Denver.

We have split our comments below based on the section of instructions they refer to, following feedback comments related to the overall exposure.

General Feedback

Interested parties note that the instructions for SSAP No. 1, Note 5L, General Interrogatories (GI), and Risk Based Capital (RBC) do not indicate which values should be used for each of the disclosures (i.e., Book Adjusted Carrying Value (BACV), collateral amount, Fair Value). As such, we recommend that BACV be used for all disclosures to ensure consistency.

For example, in Note 5L, columns 8 & 9, Total Admitted/Nonadmitted Assets are reported using BACV, as the assets would appear in the Assets page under the Admitted and Nonadmitted Assets columns. In lines b and c, *Collateral held under security lending agreements* and *Subject to repurchase agreements*, may be reported as collateral amounts to match the General Interrogatory (GI). Combining BACV and collateral amounts could be misleading to the reader.

Interested parties recommend that changes to the *NAIC Accounting Practices and Procedures Manual* (AP&P manual) be made concurrent with any Blanks and RBC instruction updates to ensure that all reporting is consistent.

SSAP No. 1

We have no comment on the changes in SSAP No. 1 – *Accounting Policies, Risks & Uncertainties and Other Disclosures* other than the clarification of expected reporting values.

Notes to the Financial Statements - 5L

5L(1)

- Interested parties note that instructions are not included for the new columns and rows or the newly required reconciliation. Therefore, we recommend instructions be added to the Restricted Assets section.
- We note that this section still has line o titled: *Total restricted assets,* but the new chart shows that the total is now line r. We recommend instructions be updated with the new line titles.
- We note that changes to SSAP No. 1's requirements would also require Note 5L be updated for Health and Property & Casualty companies, which have slightly different formats than Life.

Illustrations to the Financial Statements - 5L

5L(1)

- The exposure should clarify what happens if assets are pledged and may show up as restricted assets in another row.
- Interested parties recommend the removal of the reference to SSAP No. 1 Paragraph 23.c from the Restricted Assets Category in lines o-q.
- We would like to confirm that line o should exclude collateral received from security lending and repurchase agreements as these items are already included in lines b-f. We recommend clarification language to call out the exclusions.

5L(2)

- Question: Is the amount of total assets pledged under derivative contracts supposed to be on the new line (*Amount of Total pledged under derivative contracts*) and not included above the current line "Total (c)"? If so, why would we need to remove that line from the new total line?
- We recommend that the new Total Excluding Derivatives include a formula showing it is Total (c) less Amt of total pledged under derivative contracts.
- We recommend Staff Note be included as a subnote to the table or included in the Note 5L instructions.
    - ✓ **Note: The amount of pledged under derivative contracts should agree to Schedule DB and agree to what is subtracted from the life RBC formula.**

5L(4)

- Interested parties would like clarification if the new Collateral/Modco/FWH Columns are independent of each other or are Modco/FWH subsets of the collateral amount.
- We note that the subnotes for Columns 3 and 4 were not updated and still state the formula is column 1 / Asset page. Column 1 refers to all data for BACV. The columns will need to be renumbered (i.e., 1.1 Collateral; 1.2 Modco; 1.3 FWH) and/or the subnotes for j and t would be updated.
- We note that row j currently should be column total lines, but the headers for the Separate Account (SA) section were added to the total line instead of a new row. We recommend a new line be added for the SA section headers. Line t should be numerical values rather than column headers.

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- We would like to confirm that the "Recognized Obligation for Modco/FWH Assets" required in 5L(4)u and v are equal to the Modco/FWH reserve liabilities. If so, the language should be updated to read as such.

5L(4) – The second one should be renumbered to 5L(5)

- The exposure should clarify that this table applies only when the economic benefits received from pledging the asset stay with the cedant. Stated differently, if the benefit or cost associated with the restriction inures to the reinsurer, that would not be considered "purpose specific to the ceding insurance reporting entity." We recommend a principle be developed to apply the intended rules to a wide array of transactions.

Life RBC (E) Working Group Referral

Interested parties propose the following changes be made to the referral to the Life RBC (E) Working Group.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. **In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of ~~by~~ the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then ~~the reporting entity cannot assert that they have transferred the asset risk or variability~~ ~~and~~ RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.**

Ref #2024-21: Investment Subsidiaries

On November 17, 2024, the Working Group moved this item to the active listing and exposed this concept agenda item requesting comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries.

As background, investment subsidiaries are often used by insurers as operationally efficient investment vehicles and also may be used for various legal reasons (e.g., reinsurance transactions). Using a separate legal entity to own certain types of investments may be a lot more efficient than having the insurer own the assets outright. For example, insurers may use an investment subsidiary to own residential mortgage

loans. This asset type usually requires the issuance of a high volume of loans to achieve the appropriate economies of scale so that the investment is cost-effective. Insurers may create a separate legal entity to allow for licensing to purchase loans in every state and that will engage a mortgage loan servicer to administer and service all the loans. Additionally, when insurers establish an investment subsidiary in the form of a trust with a national bank as trustee, the national bank trustee is either explicitly exempted from state lending licensing requirements or entitled to federal preemption from state lending license requirements. Using an investment subsidiary in this case would allow the insurance company to invest in large volumes of residential mortgages without significant burden on internal resources and internal operations while holding a capital charge on the underlying mortgages that is commensurate with the risk of each underlying mortgage loan.

With the background above, following are our comments to the potential actions included in the exposure draft.

1. **Proposal No. 1: Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries)**

   Interested parties agree with including guidance in SSAP No. 97 to address the following items:
   a. The definition of an investment subsidiary from Schedule D should be brought over into SSAP No. 97.
   b. Interested parties agree that clarification should be added on the accounting for these investments. We understand that these investments are to be reported using an equity method of accounting with U.S. GAAP audited financial statements required for admissibility. There is a current lack of clarity on how to apply the "imputed value" requirement in the investment subsidiary definition. There is inconsistency in practice as to whether the underlying investments are adjusted from a U.S. GAAP value to a U.S. SAP value in instances where U.S. GAAP and U.S. SAP differ from an investment valuation perspective. If the intent is for the investment subsidiary's assets to be recorded with a carrying value equal to what would be recorded if the assets were held directly by the insurer, more clear guidance should be included in SSAP No. 97 as to how this rule is intended to be applied.

   c. There should be clarification that in no instance the RBC charges applied to the underlying assets can be more beneficial than if the assets were held directly by the insurer. This should address the Working Group's concern regarding investment subsidiaries that own bonds that do not meet the new principles-based definition and would require an SVO designation for reporting. Interested parties also request clarification in the RBC instructions that the applicable charges be applied to the accounting basis used to determine the carrying value of the investment subsidiary.

2. **Proposal No. 2: Sponsor Blanks proposals to capture new investment Schedules or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary**

   Interested parties believe that having to include a listing of each underlying asset of the investment subsidiary will take away some of the operational efficiency that is gained by having

the investment subsidiary own the underlying assets. If this is a "must have" for the Working Group, perhaps we can work together on the most efficient way to provide the data. See additional suggestions under item 3 below.

3. **Proposal No. 3: Referrals to Capital the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries**

   Interested parties agree with providing transparency for RBC purposes. Since listing each asset individually may take away some of the benefits of creating an investment subsidiary, perhaps the assets can be provided by groupings that match AVR/RBC schedules similar to the industry's recent response on the funds withheld assets exposure. Another option may be to include detail in a note to the financial statement that would be less onerous than including it in the actual Investment schedules.

In addition to providing responses above to the specific actions detailed in the Exposure Draft, interested parties would like to provide additional comments as follows:

1. We understand from the exposure draft that the concept of an investment subsidiary is intended to be limited to Schedule D common stock and preferred stock investments. However, it is not clear to us why the concept cannot be extended to investments in subsidiaries that are legally structured as limited partnerships (LPs) or limited liability companies (LLC). The legal form of the entity should not impact whether a subsidiary meets the criteria for investment subsidiary reporting as the accounting and reporting would follow substance over form. In fact, we understand that insurance law in some states already allows the concept of an investment subsidiary to be applied to any legal entity. For example, state statutes modeled on the NAIC Holding Company System Regulatory Act refer to investment subsidiaries as "entities organized as corporations, partnerships, associations, joint stock companies, trusts, unincorporated organizations that are engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer." We understand that this would require some changes to Schedule BA to add a specific line item for investment subsidiaries, which will require additional work and new AVR/RBC mapping. Another option could be to require all investment subsidiaries, regardless of legal form, to be reported on Schedule D.

2. There are entities that are not legally structured as either a corporation or LP/LLC. However, the equity they issue is more akin to a common stock investment in a corporation than it is to an equity interest in an LP/LLC. This is the case for Delaware statutory trusts (DSTs). From a legal perspective, equity investments in these types of entities are treated similarly to common stock as investors in both DSTs and corporations have limited liability. Unlike LPs/LLCs, DSTs do not maintain separate capital accounts for each investor since the ownership interest is usually represented by shares/beneficial interests similar to ownership of equity in a corporation. Any new guidance added to SSAP No. 97 should allow for the reporting entity's assessment of whether the equity investment in the investment subsidiary is more akin to common stock (Schedule D reporting) or more akin to LP/LLC interests (Schedule BA reporting). Each reporting entity needs to assess individual facts and

circumstances for each investment vehicle to determine guidance applicability and the appropriate schedule in which to report the investment subsidiary.

3. Some trusts are established to hold assets such as mortgage loans that allow for direct reporting on Schedule B. We understand that this is done by including legal language in the trust certificates that specifically state that ownership in the trust represents a participation in each mortgage loan owned by the Trust. In these instances, the insurer has an undivided interest in each mortgage loan and it has the same rights as the lender of record with all proceeds from the loans as well as foreclosure rights being pari-passu with the lender of record. We believe that since ownership in the trust in this instance represents a participation in each loan as defined in SSAP No. 37, these loans are Schedule B eligible assets and are outside of the scope of the investment subsidiary guidance.

Ref #2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards

On November 17, 2024, the Working Group moved this item to the active listing and exposed revisions, as shown in the exposure draft, to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*.

Interested parties have no comments on this item.

Ref #2024-23: Derivative Premium Clarifications

On November 17, 2024, the Group moved this item to the active listing, categorized as a SAP clarification, and exposed this agenda item proposing revisions to *SSAP No. 86—Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premiums and to further clarify that derivative premium costs shall not be recognized as a realized gain/loss.

After discussion with NAIC staff, interested parties suggest that the Ref #2024-23: Derivative Premium clarification be captured in the discussion of Ref #2024-15: ALM Derivatives.

Ref #2024-24: Medicare Part D - Medicare Prescription Payment Programs

On November 17, 2024, the Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* as well as minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, as described above. The Working Group directed notice of the exposures to the Health Insurance (B) Committee and Health Risk-Based Capital (E) Working Group. In addition, NAIC staff were directed to coordinate on the annual statement blanks proposals and to develop disclosures for future discussion.

Interested parties support the comment letter submitted by AHIP and BCBSA.

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Ref #2024-25: SSAP No. 16 Clarifications

On November 17, 2024, the Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC).

Interested parties agree with the updated references in this item.

Ref #2024-27: Issue Papers in the Statutory Hierarchy

On December 17, 2024, the Working Group moved this item to the active listing as a SAP clarification and exposed revisions, as shown in the exposure draft, to classify issue papers in Level 5 of the statutory hierarchy.

Interested parties raised the issue of the placement of Issue Papers in the statutory hierarchy in our previous comment letter of September 27, 2024, where we suggested that Issue Papers be recognized as authoritative guidance and included in either Level 2, or alternatively Level 4, in the statutory hierarchy of authoritative guidance. Because Issues Papers frequently have more accounting guidance rather than reporting guidance, we suggested first Level 2 as this would place issue papers higher in the hierarchy than the annual statement instructions (Level 3) which is arguably more appropriate.

Level 4 specifically includes the preamble as authoritative guidance and paragraph 45 of the preamble states, "While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive." This part of the preamble puts the guidance in an SSAP above the guidance in an Issue Paper if a difference exists between the two, which we agree is appropriate. However, there are instances where there is no guidance in an SSAP and the underlying Issue Paper has either a detailed discussion or specific guidance that is on point for an accounting issue that a preparer or auditor is researching. As mentioned in our prior comment letter, examples include feeder funds related to the new principles-based bond definition (PBBD) and superseded US GAAP OTTI impairment guidance that is still applicable for statutory accounting but is not codified within the SSAPs).

The current exposure draft recommends that Issue Papers be included in Level 5 of the statutory hierarchy as "nonauthoritative guidance" which includes "Accounting textbooks, handbooks and articles." We believe this is inappropriate as the guidance in Issue Papers is the result of the deliberative process used by the Working Group and the Accounting Practices and Procedures Task Force to identify appropriate statutory accounting guidance and practices, expose draft guidance for comment, receive public comment, and deliberate a final Issue Paper that is and should be maintained as part of the process for developing authoritative statutory accounting practices and procedures. In short, the Issue Papers are the product of an iterative, open process that become part of the documented discussion of statutory accounting guidance by the Working Group, industry, and others. We believe this should result in Issue Papers being placed in Level 4.

Ref #2024-28: Holders of Capital Notes

This agenda item has been prepared in response to the direction of the Working Group during the 2024 Fall National Meeting with the adoption of INT 24-01: Principles-Based Bond Definition

Implementation Questions and Answers. With the adoption of the INT, and the guidance for reporting certain debt securities as capital notes in scope of SSAP No. 41—Surplus Notes, industry identified that slight revisions may be necessary to reflect the capital note distinctions. The Working Group directed NAIC staff to work with industry in this review and identifying necessary changes.

From the initial review and working with industry, revisions have been proposed to address the following specifically for capital notes:

1. Incorporate a definition/reference to the INT for capital notes.

2. Clarify the admittance restrictions.

3. Clarify the guidance for NAIC designations.

4. Update the impairment guidance to refer to capital notes.

In addition to these items, it was identified that an existing disclosure for surplus notes, which requires disclosure of any holder of 10% or more of an SEC-registered surplus note, is likely an extensive administrative burden, may be difficult to complete, and as a narrative disclosure only (not data-captured), is likely not often utilized. From a review of the disclosure, it predates the issuance of SSAP No. 41—Surplus Notes, and there are questions as to how a disclosure of certain holders of SEC-registered notes would be purposeful or used. NAIC staff has proposed to eliminate this aspect of the disclosure but retain the disclosure focusing on surplus notes with affiliates. NAIC staff requests feedback on whether this disclosure should be retained. Interested parties reviewed this exposure and have the following comments.

Interested parties appreciate the attempted clarification in the exposure regarding paragraph 9a as this paragraph was a point of confusion during interested parties' pre-exposure review of SSAP No. 41. Even with the proposed changes, there is still confusion surrounding this paragraph. More specifically, do the state law admission limits discussed pertain to ownership related to an individual company, affiliates, an aggregate equity limit or something else? As noted in the NAIC Staff Note, it is not generally characteristic of the SSAPs to detail provisions used in state limitations. As a result, absent further clarification and/or a compelling rationale from regulators as to the purpose of having such guidance in SSAP No. 41, interested parties would support the deletion of this paragraph if determined appropriate by regulators in response to the question asked of them in the NAIC Staff Note.

Interested parties are also supportive of the proposed changes to paragraph 21 as not only is this language likely not purposeful or used but it also not readily obtainable for issuers if at all. Relatedly, the disclosure in paragraph 18c includes the following to be disclosed for as long as the surplus notes are outstanding:

> *Holder of the note, or if public, the names of the underwriter and trustee, with the identification on whether the holder of the surplus note is a related party per SSAP No. 25 – Affiliates and Other related Parties.*

Interested parties believe this disclosure can also be deleted as: 1) the holder of the note, is duplicative of the proposed deletion in paragraph 21, is likely not purposeful or used and not readily obtainable 2)

the names of the underwriter and trustee are likely not purposeful or used, and 3) any surplus note for which the holder is a related party would appear to be captured in paragraph 21 which is not being deleted. If a distinction is being made between related party and affiliate, maybe that could be clarified within paragraph 21 and thus allow the deletion of paragraph 18c.

Interested parties do not believe it is appropriate for capital notes to be nonadmitted in the event the regulatory authority halts principal or interest payments as suggested in paragraph 9b. Mechanisms already exist to appropriately reduce capital such as the carrying value of NAIC designations of 3 through 6 capital notes are reported as the lesser of amortized cost or fair value in paragraph 11 and proposed impairment guidance in paragraph 16 recording an impairment down to fair value.

A wide range of scenarios may exist in regard to regulator authority cancelling coupons and/or writing off par value. Typically, a cancellation of a coupon would cause a down grade and likely an impairment decision. Carrying the capital note at fair value (which is generally readily available in the market) is more suitable than non-admitting the remaining fair value of a capital note. During 2009, several bank issuers agreed with their EU regulators on cancelling coupons for 24 months. If held, many of these hybrid securities recovered and ultimately were called by the issuer at par value. Further, nonadmitting an asset that may have a significant fair value would work to incentivize companies to sell at depressed prices, ultimately hurting policyholders, rather than holding the capital note for a potential recovery.

* * * *

Thank you for the opportunity to comment on the above items. Please feel free to contact either one of us if you have any questions or would like to discuss further.
Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

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INT 24-02
BCBSA/ AHIP comments on exposure

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 24-02T: Medicare Part D Prescription Payment Plan

Drafting Note: Tracked changes reflect BCBSA/ AHIP recommended revisions to February 25, 2025, exposure which are exposed until March 5, 2025, to allow for 2025 Spring National Meeting discussion.

INT 24-02T Dates Discussed

November 17, 2024; February 25, 2025

INT 24-02T References

Current:
- *SSAP No. 47—Uninsured Plans*
- *SSAP No. 54—Individual and Group Accident and Health Contracts*
- *SSAP No. 66—Retrospectively Rated Contracts*
- *SSAP No. 84—Health Care and Government Insured Plan Receivables*
- *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*

INT 24-024T Issue

1. The Inflation Reduction Act of 2022 introduced changes to Medicare Part D, which is the voluntary outpatient prescription drug program (Part D), including a new program to offer Part D enrollees the option to pay ~~-~~their out-of-pocket Part D prescription drug costs through monthly payments over the course of the plan year instead of paying the full amount upfront at the pharmacy counter. This program, known as the Medicare Prescription Payment Plan (MPPP), is effective on January 1, 2025.

2. The purpose of this interpretation is to provide statutory accounting and reporting guidance for aspects of the MPPP. This interpretation specifically addresses the MPPP components of Medicare Part D and does not intend to alter the guidance in *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, which offers high-level accounting guidance on the current Medicare Part D program.

MPPP Program Overview

3. The MPPP requires all Medicare prescription drug plans (Part D plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer ~~its~~ enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

4. Part D plan enrollees who elect to participate in the MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an MPPP participant's applicable out-of-pocket amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the MPPP participant monthly for any cost-sharing incurred while enrolled in the MPPP.

5. -MPPP ~~participants~~ will not reduce total out-of-pocket costs for participants' prescription drug purchases for a plan year.~~-~~. The MPPP simply spreads MPPP participants' out-of-pocket Part D costs into monthly payments over the remaining term of the plan year which may help some to better manage their monthly cash flow.

6. Unlike other existing aspects of Medicare Part D, which involve funds due from the federal government for which payment is effectively assured, MPPP installment balance recoverables are due from individual MPPP participants. Consequently, Part D plans may pay pharmacies for MPPP participants' out-of-pocket pharmacy claim costs, but some amounts billed to the MPPP participants might be uncollectible. That could occur when an MPPP participant does not pay the full outstanding balance after the required grace period. This raises statutory accounting concerns regarding potential nonadmittance of overdue amounts and impairment of unpaid outstanding recoverables from MPPP participants.

7. To help cover potential uncollectible balances, the Centers for Medicare and Medicaid Services (CMS) allows Part D plan sponsors to include an estimate for MPPP related losses in their plan bids. However, for the initial years, Part D plan sponsors lack directly relevant prior experience in estimating the MPPP program's potential for uncollectible amounts.

8. The government is responsible for the estimated MPPP losses to the extent they are included in plan bids by Part D plan sponsors. Part D plan sponsors thus receive additional premium revenue from the government, which helps to cover uncollectible balances from MPPP participants. Part D plan sponsors face pricing/underwriting risk relating to the prescription needs of enrollees and may inaccurately estimate the amounts of uncollectible balances to include in plan bids. In addition, there are risks that the costs of uncollectible amounts and other aspects of implementing the MPPP will vary from amounts that had been factored into plan bids.

MPPP Program Requirements for Unpaid Balances

9. Under the MPPP, Part D plan sponsors take on the risk for uncollectible balances not covered by the plan bid. The program rules prohibit or limit many of the common methods used to mitigate loss from uncollectible MPPP balances. Examples of such prohibitions or limitations include the following:

a. **Late Fees, Etc. –** Under the MPPP, late fees, interest payments, or other fees, such as for different payment mechanisms, are not allowed.

b. **Billing and Payment Procedures –** Part D plan sponsors can design their own billing and payment procedures for the MPPP. However, they must prioritize payments towards Part D plan premiums to avoid an enrollee losing their Part D coverage. This rule applies when it is unclear if an enrollee intended a submitted payment to cover their outstanding Part D plan premium or their MPPP balance.

c. **Pharmacies Not Responsible for Balances –** Participation in the MPPP is considered an arrangement between the Part D plan sponsor and the MPPP participant. Pharmacies are not responsible for losses attributed to the uncollectibility of MPPP participants' balances or for collecting unpaid balances from the MPPP participant on the Part D plan sponsor's behalf.

d. **Termination of Participation –** A Part D plan sponsor must terminate an enrollee's participation in the MPPP if the enrollee fails to pay their monthly billed amount. An MPPP participant will be considered to have failed to pay their monthly billed amount only after a required grace period of at least two months. The Part D plan sponsor cannot terminate an enrollee from the Part D plan for

nonpayment of any of their MPPP billed amounts. Part D plan sponsors must continue billing amounts owed under the program in monthly amounts up to the maximum monthly cap based on the statutory formula for the remaining duration of the plan year after an enrollee has been terminated.

e. **Reinstatement of Enrollees** - Part D plan sponsors must reinstate terminated MPPP participants if the individual demonstrates good cause for failure to pay the program billed amount within the grace period and pays all overdue amounts billed.

f. **Preclusion from Subsequent Enrollment** - A Part D plan sponsor may prevent an individual from opting into the MPPP program in a subsequent year if the individual owes an overdue balance to that Part D plan sponsor or to another Part D plan sponsor with the same parent organization. In other words, an individual who owes an overdue MPPP balance to a Part D plan sponsor cannot be barred from enrolling in the MPPP in a subsequent year through a different Part D plan sponsor that does not have the same parent organization.

g. **Compliance with Federal and State Laws** - Part D plan sponsors (and any third parties with whomthat Part D plan sponsors contract) collecting unpaid balances related to the program must follow other applicable federal and state laws and requirements, including those related to other types of payment plans, credit reporting, and debt collection.

Medical Loss Ratio

10. The current Public Health Act outlines how to calculate medical loss ratio (MLR) rebates, which are generally based on a comparison of incurred health claims and quality improvement activities to premium revenue, considering various factors and adjustments, all as prescribed by CMS. *SSAP No. 66—Retrospectively Rated Contracts* provides disclosures related to the MLR. The CMS MLR requirements are separate from the statutory accounting reporting requirements for the MPPP. However, statutory accounting which differences from CMS requirements create the need to for report differencesing adjustments between them in the annual statement *Supplemental Health Care Exhibit*.

11. According to the CMS guidance, the losses related to uncollectible MPPP participants' balances are considered for MLR purposes as part of the Part D plan sponsor's administrative expenses. CMS guidance thus excludes losses attributed to uncollectible MPPP participants' balances from the numerator of the MLR calculation, which this is consistent with CMS' treatment in the MLR of other administrative expenses incurred by Part D sponsors. The CMS guidance states that the additional premium revenue attributable to the estimates of MPPP uncollectible amounts included in the Part D plan sponsor plan bids are included in the MLR calculation denominator.

Drafting Note: The MPPP program considers uncollectible recoverables from MPPP participants as incurred plan administrative costs and does not include these amounts in the MLR numerator, so reporting guidance for other adjustments to the Supplemental Health Care Exhibit will be needed. Such reporting revisions are not addressed in this interpretation but would be anticipated to be in the annual statement reporting revisions submitted to the Blanks (E) Working Group.

INT 24-02T Discussion

Statutory Accounting and Reporting Considerations for MPPP

12. The Working Group reached the following tentative consensus for MPPP statutory accounting and reporting guidance. In addition, Appendix 1 illustrates some basic journal entries which help to show the intended financial statement results.

Recoverables from MPPP Participants

13. Recoverables from MPPP participants shall be accrued and reported as an asset on the asset page in the line for *Health care and other amounts receivable*, when the related payment is made by the Part D plan sponsor to the pharmacy for the out-of-pocket costs incurred on behalf of the MPPP participant.

14. Current recoverables from MPPP participants, meaning those that are less than and up to 90 days overdue, are admitted assets to the extent that they comply with the guidance in this interpretation. Recoverables from MPPP participants are also subject to impairment analysis.

15. Uncollected MPPP recoverables more than 90 days overdue are nonadmitted. The due date for aging of the MPPP recoverables shall follow the program billing guidelines.

16. If a recoverable from an MPPP participant is fully collected, ~~it will~~the amount received by the Part D plan sponsor will equal the corresponding out-of-pocket payment it made for a pharmaceutical claim ~~payment~~. In those cases, there will not be an income statement impact regarding claims (or claims adjusting expenses).

Impairments

17. Uncollected recoverables from MPPP participants are subject to an impairment analysis which shall be assessed using the evaluation guidelines in *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets.* However, when uncollectible recoverables from MPPP participants are written off, the expense shall be reflected as an incurred Medicare Part D prescription drug claims in the statutory income statement.

Out-of-Pocket MPPP Pharmacy Payments

18. When the Part D plan sponsor pays out-of-pocket drug claims to the pharmacy, a claims expense, a contra claims expense, and a contra claims expense account recoverable are recorded. The contra claims expense, or similar mechanism, is recorded to prevent initial claims expense recognition in the income statement so there is zero initial impact to the income statement. This is because there is an amount recoverable from the MPPP participant, and to the extent that the MPPP participant pays in full, there should not be any claims recognition. This is analogous to the handling of anticipated pharmaceutical rebates or anticipated subrogation recoveries.

19. If the MPPP participant pays the amount due in full, there will be no income statement impact in claims expenses resulting from the Part D plan sponsor's payment of the MPPP participants out-of-pocket costs to the pharmacy. This is because the MPPP participant's subsequent monthly payments to the Part D plan sponsor have fully offset the initial pharmacy payments. In such cases, the MPPP recoverable will be reduced as payments are collected and there would be no income statement impact.

20. If the MPPP participant's balance ~~-~~is not repaid in whole or in part, there will be an income statement impact to reflect ~~paid~~ claims expense for the uncollectible MPPP balance~~s~~ which has~~ve~~ been evaluated ~~for~~ as impair~~ed~~~~ment~~ and written off. Since there is a recoverable from the MPPP participant there should be no income statement amount for an incurred claim until the related MPPP recoverable is written off as uncollectible based on ~~-~~impairment analysis.

21. When the recoverable from the MPPP participant is evaluated as ~~for~~ impair~~ed~~~~ment~~, the contra claims expense is decreased by the amount of the MPPP recoverable that is written off. This results in the incurred Medicare prescription claim reported reflecting the uncollectible recoverable from MPPP participants for statutory reporting. The premium to offset these claims is included in Medicare premium bids, so reporting the uncollectible MPPP amounts as losses allows the statutory accounting loss ratio to reflect incurred Medicare Part D prescription costs, including the MPPP uncollectible amounts which have been impaired and written off.

Administrative Costs

22. Other costs, e.g., those incurred by Part D plan sponsors in implementing and administering the MPPP program and related collections, are included in the administrative expenses of the Part D plan sponsor and are not included in the claim expenses or claim adjustment expenses.

MLR Reporting Difference

~~23.~~ Note that the statutory reporting of the written off (impaired) recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS requires Part D plan sponsors to report losses from impairment write-offs ~~-~~of uncollectible recoverables from MPPP participants as administrative amounts and, thus, such losses are excluded from the numerator in the CMS MLR. For loss ratios determined under statutory accounting, and pursuant to the guidance in this INT 24-02, such amounts are reported as claims expense and included in the numerator of the loss ratio. ~~s. These administrative amounts are included in the denominator of the MLR by CMS.~~

~~24.~~23.

INT 24-02T Status

~~25.~~24. This interpretation is tentatively effective March 30, 2025~~.~~

~~26.~~25. Further discussion is planned.

Appendix 1 - Illustrative Journal Entries

INT 24-02
BCBSA/ AHIP comments on exposure

Medicare Prescription Payment Plan Scenarios			
	Claims	**Receivable**	**Cash**
Initial entries for all scenarios *Assumed to have been recorded by the Part D plan sponsor prior to Scenarios 1 – 3.*			
DR Claims Expense *To represent claims expenses incurred on behalf of the MPPP participant.*	$ 2,000		
CR Cash *To represent the $2,000 paid by the Part D plan sponsor to the pharmacy on behalf of the MPPP participant.*			$ (2,000)
DR Healthcare Receivable *To represent the amount due to the Part D plan sponsor from the MPPP participant, which the MPPP participant must pay over the policy term.*		$ 2,000	
CR Claims A/R (contra-claims expense) *To be reported within the claims expense line, essentially a contra-claims expense, and represents the amount due to the Part D plan sponsor from the MPPP participant which the MPPP participant must pay over the policy term. This offsets the claims expense amount, so results in a current net $0 impact on the income statement, but both the DR and CR on the income statement are in claims expense.*	$ (2,000)		
Scenario 1 - The MPPP participant pays their full amount of $2,000 to the Part D plan sponsor.			
DR Cash To *record receipt of the MPPP participant's payment in full.*			$ 2,000
CR Healthcare Receivable *The net income statement impact remains at $0, because the original claims expense was offset by the contra-claims expense (Claims A/R), and since the full $2,000 was received from the MPPP participant, there are no further income statement journal entry impacts.*		$ (2,000)	
Scenario 1 Net result on Financial Statements	**$ -**	**$ -**	**$ -**
Scenario 2 - The MPPP participant pays $1,500 out of the $2,000 to the Part D plan sponsor and does not pay the remaining $500.			

Appendix 1- Illustrative Journal Entries

INT 24-02

DR Cash T*o record receipt of MPPP participant partial payment of outstanding balance.*			$ 1,500
CR Healthcare receivable *To reduce MPPP participant receivable for amounts paid.*		$ (1,500)	
DR Claims A/R (contra-claims expense) *To represent the write-off of the receivable. This results in the Part D plan sponsor having a total income statement impact debit to claims expense of $500, represented as the initial $2,000 claims expense for the out-of-pocket paid to the pharmacy by the Part D plan sponsor, offset by the $1,500 received from the MPPP participant.*	$ (500)		
CR Healthcare receivable *To write-off the remaining uncollectible amount as impaired*		$ (500)	
Scenario 2 Net result on Financial Statements	**$ 500**	**$**	**$ (500)**
Scenario 3 - The MPPP participant does not pay any of the $2,000 owed to the Part D plan sponsor.			
DR Claims A/R (contra-claims expense) *To represent the write-off of the amount anticipated to be paid by the MPPP participant. This results in the income statement impact to the Part D plan sponsor being a debit of $2,000, for the amount paid to the pharmacy by the Part D plan sponsor and not reimbursed by the MPPP participant.*	$ 2,000		
CR Healthcare receivable *To represent the write-off of the $2000 receivable.*		$ (2,000)	
Scenario 3 Net result on Financial Statements	**$ 2,000**	**$ -**	**$ (2,000)**

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Ref #2023-28

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

Issue: Collateral Loan Reporting

Check (applicable entity):

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

Description of Issue: This agenda item has been developed to propose an expansion of reporting for collateral loans on Schedule BA to enable regulators the ability to quickly identify the type of collateral in support of admittance of collateral loans in scope of *SSAP No. 21—Other Admitted Assets*. This agenda item has been drafted in response to comments that the current reporting detail on Schedule BA does not provide sufficient clarity on the type of collateral used in support of admittance of collateral loans. Furthermore, with the adoption of agenda item 2022-11, the statutory accounting guidance has been clarified that the collateral must reflect a qualifying investment, meaning that it would qualify for admittance if held directly by the insurer. This amendment further clarified that collateral that represents an investment in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiary, Controlled or Affiliated Entities* is required to be audited consistent with the admittance requirements of those SSAPs.

As detailed within, this agenda item proposes new disclosure requirements in SSAP No. 21 for collateral loans. The new disclosure requirement is proposed to be satisfied by an expansion of the reporting on Schedule BA, so that the collateral loans are separated by the type of collateral investment that secures the loan. Additionally, a new aggregated data-captured note is proposed to identify the admitted and nonadmitted collateral loans by the type of collateral that secures the loan.

Existing Authoritative Literature:

- **SSAP No. 21—Other Admitted Assets - (Tracking shows the edits adopted on Oct. 23, 2023.)**

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of a qualifying investment[2] and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments, which would otherwise be admitted, shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral

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loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26 that are also secured with collateral shall continue to be captured within scope of SSAP No. 26.

Footnote 2: A qualifying ~~i~~investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities*, which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and/or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and/or SSAP No. 97.

Effective Date and Transition

22. ___This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4 requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

- **A/S Blank and Instructions** *(This reflects what is proposed to be adopted in 2023-12BWG.)*

Collateral Loans
Unaffiliated.....3199999
Affiliated.....3299999

Collateral Loans

Include: Refer to *SSAP No. 21—Other Admitted Assets* for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21 shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

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Ref #2023-28

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

- Agenda Item 2022-11: Collateral for Loans clarified guidance on the criteria for collateral in order for a collateral loan to qualify as an admitted asset.

- Blanks Agenda Item 2023-12BWG incorporates revisions as part of the bond project to capture debt securities that do not qualify as bonds on Schedule BA. The revisions within this blanks item incorporate minor revisions to the instructions for collateral loans.

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

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose this agenda item with proposed revisions to incorporate a new disclosure to SSAP No. 21, for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. NAIC staff recommends that the Working Group direct a corresponding blanks proposal to allow for concurrent exposure.

Proposed Revisions to SSAP No. 21: *(Only new edits are tracked. Prior adopted revisions are shown clean.)*

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of a qualifying investment[2] and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans and the collateral loans admitted and nonadmitted by qualifying investment type.

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Ref #2023-28

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26 that are also secured with collateral shall continue to be captured within scope of SSAP No. 26.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Proposed Schedule BA Reporting Changes:

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2)
- Unaffiliated.....
- Affiliated.....

Bonds (SSAP No. 26)
- Unaffiliated.....
- Affiliated.....

Asset-Backed Securities (SSAP No. 43)
- Unaffiliated.....
- Affiliated.....

Preferred Stocks (SSAP No. 32)
- Unaffiliated.....
- Affiliated.....

Common Stocks (SSAP No. 30)
- Unaffiliated.....
- Affiliated.....

Mortgage Loans (SSAP No. 37)
- Unaffiliated.....
- Affiliated.....

Real Estate (SSAP No. 40)
- Unaffiliated.....
- Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48)

Unaffiliated.....
Affiliated.....

Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)
Unaffiliated.....
Affiliated.....

Other Qualifying Investment Category
Unaffiliated.....
Affiliated.....

Collateral Does Not Qualify as an Investment
Unaffiliated.....
Affiliated.....

Collateral Loans

Include: Refer to *SSAP No. 21—Other Admitted Assets* for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21 shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Classify the collateral loan in accordance with the type of collateral held, such that if the loan was to default and the collateral was to be claimed by the reporting entity, where it would be captured (investment type by SSAP) as a directly-held investment. If more than one form of collateral secures the loan, classification should occur based on the primary collateral source. The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending, and any investments that would qualify as a write-in for invested assets.

Proposed Data-Captured Disclosure:

Aggregate Collateral Loans by Qualifying Investment Collateral:

Collateral Type	Aggregate Collateral Loan	Admitted	Nonadmitted
Cash, Cash Equivalents & ST Investments			
Bonds			
Asset-Backed Securities			
Preferred Stocks			
Common Stocks			
Real Estate			
Mortgage Loans			
Joint Ventures, Partnerships, LLC			

Subsidiary, Affiliated and Controlled Entities			
Other Qualifying Investments			
Collateral Does not Qualify as an Investment			
Total			

Pursuant to SSAP No. 21, nonadmittance of a collateral loan is required when the fair value of the collateral is not sufficient to cover the collateral loan or if the collateral securing the loan is not a qualifying investment. This includes situations in which collateral in form of joint ventures, partnerships, LLCs or SCAs is not supported by an audit as required by SSAP No. 48 or SSAP No. 97.

The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets. All collateral loans secured by collateral that does not qualify as an investment are~~is~~ required to be nonadmitted under SSAP No. 21.

Staff Review Completed by: Julie Gann - NAIC Staff, September 2023

Status:
On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to incorporate a new disclosure to SSAP No. 21 for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. Comments are requested on whether any of the proposed reporting lines should be combined.

On February 20, 2023, the Statutory Accounting Principles (E) Working Group took the following two actions:

1) The Working Group **adopted** the exposed revisions to SSAP No. 21 incorporating a collateral loan disclosure for year-end 2024. With this adoption, the Working Group sponsored a blanks proposal to data-capture the disclosure. Adopted revisions to SSAP No. 21 are shown below:

> 5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.

2) The Working Group exposed proposed reporting lines to Schedule BA for collateral loans with a comment deadline of April 19, 2024. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

February 20, 2024, Exposed Schedule BA Reporting Changes:
(Tracking shows changes from the prior exposure.)

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

~~Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2R)~~
~~Unaffiliated~~
~~Affiliated~~

Bonds and Asset-Backed Securities (SSAP No. 26 & SSAP No. 43)
Unaffiliated.....
Affiliated.....

~~Asset-Backed Securities (SSAP No. 43R)~~
~~Unaffiliated.....~~
~~Affiliated.....~~

Preferred Stocks (SSAP No. 32)
Unaffiliated.....
Affiliated.....

Common Stocks (SSAP No. 30)
Unaffiliated.....
Affiliated.....

Mortgage Loans (SSAP No. 37)
Unaffiliated.....
Affiliated.....

Real Estate (SSAP No. 40)
Unaffiliated.....
Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48)
Fixed Income Investments (Unaffiliated) .....
Fixed Income Investments (Affiliated) .....

Common Stocks (Unaffiliated) .....
Common Stocks (Affiliated) .....

Real Estate (Unaffiliated) .....
Real Estate (Affiliated) .....

Mortgage Loans (Unaffiliated) .....
Mortgage Loans (Affiliated) .....

Other (Unaffiliated) .....
Other (Affiliated) .....
~~Unaffiliated.....~~
~~Affiliated.....~~

~~Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)~~
~~Unaffiliated.....~~
~~Affiliated.....~~

Other ~~Qualifying~~ Investment Category
Cash, Cash Equivalent and Short-Term Investments (Unaffiliated) .....

Cash, Cash Equivalent and Short-Term Investments (Affiliated) .....

Other Long-Term Invested Assets (Unaffiliated) .....
Other Long-Term Invested Assets (Affiliated) .....
~~Unaffiliated.....~~
~~Affiliated.....~~

~~Collateral Does Not Qualify as an Investment~~
~~Unaffiliated.....~~
~~Affiliated.....~~

Non-Collateral Loans

Related Party/Affiliated Loans
All Other Non-Collateral Loans
~~Unaffiliated.....~~
~~Affiliated.....~~

On May 15, 2024, the Statutory Accounting Principles (E) Working Group took the following two actions:

1) Directed NAIC staff to prepare a memo to the Blanks (E) Working Group to incorporate an instructional change to the AVR instructions that allows collateral loans backed by mortgages to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans" as an interim step while further consideration occurs on the reporting of collateral loans and how collateral loans should flow through AVR. The Working Group noted that this memo to blanks is contingent on the adoption of the exposed editorial change by the Life Risk-Based Capital (E) Working Group. This Life RBC editorial change adjusts the amount reported as collateral loans to be in "in part" so that the reduction for what is backed by mortgage loans could be removed from the collateral loan total, as they would be captured in a different category. If this Life RBC change does not get adopted, while the blanks memo moves forward, then collateral loans backed by mortgage loans would get captured in two places in the RBC formula.

2) Directed NAIC staff to proceed with sponsoring a blanks proposal for the reporting of collateral loans, using the reporting lines shown in the agenda item modified to reflect a majority of the interested parties' comments. NAIC staff notes that specific comments were not received on whether certain collateral loans should flow through AVR, so NAIC staff will be working in the interim with regulators and RBC staff to develop a proposal for initial consideration. (With this direction, this agenda item was not re-exposed. The agenda item will likely be exposed when the proposed blanks changes are drafted.)

2024 Summer National Meeting Updated Recommendation:

As detail of all collateral types will be collected in the data-captured disclosure, NAIC staff proposes only limited reporting lines on Schedule BA reporting lines focusing on categories for which look-through to underlying collateral for AVR and RBC purposes is warranted. The proposed categories shown below reflect where separate reporting and AVR/RBC consideration has been suggested. With the receipt of the 2024 data-captured disclosure, an assessment will occur to determine whether additional Schedule BA reporting lines should be considered based on the extent certain types of investments are backed by collateral loans. **NAIC staff recommend exposure of this agenda item with a request for comments on the following potential Schedule BA collateral loan reporting lines. With exposure, NAIC staff recommends sponsoring a blanks proposal to begin detailing the revisions to Schedule BA and AVR that would occur with these changes. As the resulting AVR and RBC factors would**

be contingent on the actions of the Capital Adequacy (E) Task Force (and its RBC Working Groups), NAIC staff recommend Working Group direction to notify those groups of this action.

(Although the effective date of revisions is always contingent on the direction of the Working Group, it is currently anticipated that a Jan. 1, 2026, effective date would be considered. This would allow the revisions to begin at the start of a statutory filing year. Revisions would need to be adopted by August 2025 to meet that timeframe.)

Proposed Schedule BA Revisions:
(The existing collateral loan line will be deleted.)

Collateral Loans – Reported by Collateral that Secures the Loan

Backed by Mortgage Loans
Unaffiliated.....
Affiliated.....

(Collateral loans backed by mortgage loans that would be in scope of SSAP No. 37 if held directly.)

Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be in scope of SSAP No. 48 if held directly.)

Backed by Residual Interests
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be in SSAP No. 21 as a residual if held directly.)

Backed by Debt Securities
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be assessed under SSAP No. 26 for bond reporting. This classification does not require confirmation that the debt security would qualify as a bond.)

Backed by Real Estate
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be captured in scope of SSAP No. 40 if held directly.)

Collateral Loans – All Other
Unaffiliated.....
Affiliated.....

(Collateral loans not captured in the specific reporting lines.)

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With the inclusion of these new reporting lines, this recommendation also supports the inclusion of the following Schedule BA electronic-only columns for all collateral loan investments:

- Fair Value of Collateral Backing the Collateral Loan
- Percentage of Collateral to the Collateral Loan

Proposed AVR Revisions:
This exposure suggests a new category within the AVR Reporting Schedule to capture collateral loans. This is currently proposed to be a new category inserted after "residuals" (AVR lines 81-93) and before "All Other Investments" (AVR lines 94-99). The following illustrates the simple proposed addition to the schedule.

The following elements are requested for feedback during the exposure:

1) Should collateral loans backed by mortgage loans be included in the new collateral loan category, or should those continue to flow through the "Investments with the Underlying Characteristics of Mortgage Loans" permitted during the interim as the long-term resolution? If captured in the new collateral loan AVR category, to what extent should the underlying characteristic lines detailing quality / past due / foreclosure status (AVR lines 38-64) be duplicated?

2) What additional reporting lines (breakouts) of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment purposes?

	RESIDUAL TRANCHES OR INTERESTS
81	Fixed Income Instruments – Unaffiliated.....
82	Fixed Income Instruments – Affiliated .....
83	Common Stock – Unaffiliated.....
84	Common Stock – Affiliated .....
85	Preferred Stock – Unaffiliated.....
86	Preferred Stock – Affiliated .....
87	Real Estate – Unaffiliated .....
88	Real Estate – Affiliated .....
89	Mortgage Loans – Unaffiliated .....
90	Mortgage Loans – Affiliated.....
91	Other – Unaffiliated .....
92	Other – Affiliated .....
93	Total Residual Tranches or Interests (Sum of Lines 81 through 92)

COLLATERAL LOANS
Backed by Mortgage Loans – Unaffiliated
Backed by Mortgage Loans – Affiliated
Backed by SSAP No. 48 Investments – Unaffiliated
Backed by SSAP No. 48 Investments – Affiliated
Backed by Residuals – Unaffiliated
Backed by Residuals – Affiliated
Backed by Debt Securities – Unaffiliated
Backed by Debt Securities – Affiliated
Backed by Real Estate – Unaffiliated
Backed by Real Estate – Affiliated

All Other – Unaffiliated
All Other – Affiliated

(Renumbering will Occur Based on the Resulting Lines)

	ALL OTHER INVESTMENTS
94	NAIC 1 Working Capital Finance Investments
95	NAIC 2 Working Capital Finance Investments
96	Other Invested Assets - Schedule BA .....
97	Other Short-Term Invested Assets - Schedule DA
98	Total All Other (Sum of Lines 94, 95, 96 and 97)
99	Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)

On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed this agenda item with the proposed reporting lines for Schedule BA and AVR as shown above under the 2024 Summer National Meeting recommendation. Additionally, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal and to notify the Capital Adequacy (E) Task Force and related RBC Working Groups of this action. The RBC factors for the Schedule BA and AVR reporting lines will be contingent on the action of the Task Force. This item was exposed until September 27, 2024 to allow for consideration at the 2024 Fall National Meeting.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item detailing the proposed reporting lines for Schedule BA and AVR. This item was re-exposed to allow for concurrent exposure with blanks proposal 2024-19BWG. Comments received by the Blanks (E) Working Group and the SAPWG will be reviewed collectively.

On March 24, 2025, Statutory Accounting Principles (E) Working Group adopted, as final, this agenda item which communicates support to the Blanks (E) Working Group for the adoption of 2024-19BWG. This Blanks proposal expands the collateral loan reporting lines for Schedule BA and AVR based on the collateral that supports the loan and concludes discussion under this agenda item. Previous actions detailed within this agenda item include the December 1, 2023, action to adopt a collateral loan note disclosure in *SSAP No. 21—Other Admitted Assets* and a May 15, 2024 instruction for an interim provision to allow collateral loans backed by mortgages to flow through a specific AVR reporting line until the adoption of a dedicated Schedule BA reporting line.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1D-23-28 - Collateral Loan Reporting.docx

Ref #2024-20

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

Issue: Restricted Asset Disclosure Clarification

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to clarify how assets held under modified coinsurance (Modco) or funds withheld (FWH) agreements shall be reflected within the restricted asset disclosure in paragraph 23 of *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* and in the corresponding disclosures in Note 5L of the statutory financial statements. It also proposes enhanced disclosures to fully identify the extent of restricted assets reported on balance sheet within a single disclosure as well as identify differences between the "restricted asset" annual statement disclosure and the amount reported in the general interrogatories, which is pulled directly into the RBC formulas. Lastly, this agenda item suggests a referral to propose revisions to the life RBC instructions to clarify that if the reporting entity uses any assets held under a modco or FWH agreement as collateral or as a pledged asset for a purpose unrelated to the reinsurance agreement (securing an exposure that has not been ceded to the reinsurer), then the reporting entity should not take any Modco/FWH reduction in RBC charges (credit) for those assets in the life RBC formula. This clarification is consistent with the existing life RBC instruction that does not permit RBC credit when the asset risk has not been transferred to the assuming entity for the entire duration of the reinsurance treaty. This referral to life RBC intends to make it clear that if the insurance entity has utilized Modco/FWH assets as collateral or as a pledged item for their own repurchase agreements, securities lending transactions, FHLB agreements/borrowings, or any other purpose specific to the ceding insurer's use, then the asset risk/benefit has not been sufficiently transferred to the assuming entity warranting RBC credit for those assets.

As a key item to note, this agenda item does not propose to capture modco/FWH assets in the restricted asset reporting that flows through to the general interrogatories (GI) that results with an additional "noncontrolled" asset RBC charge. As the RBC formula allows credit for modco/FWH assets held, if these were included in the "noncontrolled asset" category, more complexity and adjustments to the RBC formula would be required to also provide credit against the additional noncontrolled asset charge. Instead, as detailed within, this agenda item proposes modifications to capture modco/FWH assets in the existing restricted asset disclosure (SSAP No. 1, paragraph 23c) that currently focuses on collateral received reported on balance sheet for when there is an corresponding liability reported. By including at this location and expanding disclosures to provide a complete view of restricted assets in comparison to total assets and total admitted assets, there is no additional RBC impact and regulators have a better picture of the assets that are restricted as pledged, not under the exclusive control of the reporting entity or that are earmarked (such as modco/FWH) for a specific purpose.

NAIC staff is aware that some companies report modco/FWH assets held in the existing restricted asset disclosure as "pledged collateral not captured in other categories" or as "other restricted assets," but not all companies report these assets as restricted. (In the RBC formulas, there are adjustments for these assets that are reported that incur additional "noncontrolled" asset RBC.) This agenda item specifies the disclosure location and category to promote consistency and comparability across insurers in the reporting of these assets. NAIC staff supports the inclusion of these assets in the restricted asset disclosure (even when an offsetting liability is reported), as it allows for a full comparison of such assets to total assets. NAIC staff believes the total restricted assets may be considered by

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financial statement users when assessing available assets, and this disclosure could impact the extent to which borrowing is permitted. If Modco/FWH assets are not captured, it may present a picture of available assets that is not accurate.

As noted in the introduction, this agenda item also proposes additional disclosures to identify differences between what is captured as restricted in SSAP No. 1, paragraph 23b, in Note 5L(1), and what is captured in the general interrogatories. Although the categories are identical, NAIC staff is aware that amounts are reported differently between the two locations. NAIC staff believes this is due to the amounts that are reported in the GI are pulled for the additional noncontrolled asset RBC charge. Over time NAIC staff has received information that these discrepancies may be directed by the domiciliary state regulator for situations that have been identified not to warrant the additional "restricted asset" / "noncontrolled asset" RBC charge. Since the amount is pulled directly from the GI to the RBC formula it is not considered a permitted practice in RBC, however, it results in a mismatch between the note disclosure and the GI although the categories are identical. (NAIC staff has not identified any permitted practices for the differences between the Note and GI reporting. Regulator comments are requested on whether the two reporting locations are interpreted to have different parameters as the language appears identical in both locations.) At this time, this proposal is strictly a disclosure element to make it easy to identify variations and the explanation between the Note and GI reporting so that future assessments can occur. If certain restricted assets are supported for general exclusion from the GI reporting (and the RBC factor), then those situations should be considered by the Working Group so that all insurers are following the same provisions.

The following paragraphs detail how the existing disclosure in SSAP No. 1, paragraph 23b (reported in Note 5L(1)) compares to the information reported in the GI:

- As detailed in SSAP No. 1, paragraph 23b and in Note 5L(1), admitted and nonadmitted assets that are pledged or otherwise restricted in the general account and separate account are to be disclosed along with a comparison of the total restricted assets to total assets and total admitted assets. With specific categories for certain uses, the note also includes broad categories for "pledged as collateral not captured in other categories" and "other restricted assets" to capture items not covered within the specific lines. Note 5L(2) and 5L(3) captures information on these generic categories, and includes examples of reinsurance and derivatives contracts on what should be captured. This disclosure instruction indicates that contracts that share similar characteristics (such as reinsurance and derivatives) are to be reported in the aggregate.

- The restricted asset categories in Note 5L(1) are duplicated in the annual statement general interrogatories (GI), and the amounts reported in the GI are pulled directly into the RBC formula and incur an additional "noncontrolled asset" RBC charge. NAIC staff is aware that there are discrepancies between the amounts of restricted assets reported in Note 5L(1) and what is captured in the same categories within the GI. (These are lines 25.04, 25.05 and 26.21-26.32 in the GI.)

The following details how these items are pulled into RBC from the general interrogatories:

- In the life formula, the restricted assets captured in the GI are pulled directly from the GI to LR017. The standard "noncontrolled asset" charge on that page is 0.0126, except for conforming security lending programs which receive a charge of 0.0020. (Assets pledged as collateral to the FHLB are adjusted in the formula based on various factors.)

- In the P/C and health RBC formula, the restricted assets captured in the GI are pulled directly to PR014 and XR005 respectively, with a 0.010 charge except for conforming security lending programs which receive a 0.002 charge.

Ref #2024-20

The specific excerpts from SSAP No. 1, Note 5L, the applicable GIs and RBC formulas have been captured in the authoritative language section. The categories are also listed in the table below. The terminology at each location is also included below to show the intended consistency in classifications.

Assets identified as "Not Controlled" or "Restricted Assets":

- SSAP No. 1: Restricted Assets / Not Under Exclusive Control: Defined in paragraph 23b as "not under the exclusive control, subject to a put option contract, etc." Footnote 3 of SSAP No. 1 includes the following: The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments **that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments**.

- Note 5L: Matches terminology and language as SSAP No. 1.

- General Interrogatories: Exclusive Control: GI 25 asks if the company has "exclusive control" over all securities, other than securities lending detailed in 25.03. The instructions define this guidance as "exclusive control means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution therefore." GI 26 that captures the statement value of investments that are not under the exclusive control of the reporting entity. **These categories mirror what is captured in SSAP No. 1 and Note 5L.**

- RBC: Noncontrolled Assets: The RBC instructions have separate lines to capture collateral from conforming and non-conforming securities lending programs and "noncontrolled assets." **The instructions indicate "noncontrolled assets are any assets reported on the balance sheet that are not under the exclusively under the control of the company, or assets that have been sold or transferred subject to put option contract currently in force."** *(Although not detailed in this agenda item, the RBC instructions include specific guidance on what to include (or exclude). Examples include assets related to the Federal Reserve's Asset Loan Facility (TALF) and for restricted assets in excess of FHLB borrowing.)*

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Ref #2024-20

	SSAP No. 1	***Note 5L***	***GI***	***Life RBC[2]***
23.a	Amounts not in the financial statements that represent segregated funds held for others.	None	None	None
23.b.i	Subject to contractual obligation for which liability is not shown	5.L(1)a	None	None
23.b.ii	Collateral Under Security Lending[1]	5.L(1)b	25.0 4 & 25.05	LR017 (1) & LR017 (2)
23.b.iii	Subject to Repurchase Agreements	5.L(1)c	26.21	LR017 (3)
23.b.iv	Subject to Reverse Repurchase Agreements	5.L(1)d	26.22	LR017 (4)
23.b.iv	Subject to Dollar Repurchase	5.L(1)e	26.23	LR017 (5)
23.b.v	Subject to Dollar Reverse Repurchase	5.L(1)f	26.24	LR017 (6)
23.b.vi	Placed Under Option Contracts	5.L(1)g	26.25	LR017 (7)
23.b.vii	Stock or Securities Restricted as to Sale – Excluding FHLB	5.L(1)h	26.26	LR017 (8)
23.b.ix	FHLB Capital Stock	5.L(1)i	26.27	LR017 (9)
23.b.x	On Deposits with States	5.L(1)j	26.28	LR017 (10)
23.b.xi	On Deposit with Regulatory Bodies	5.L(1)k	26.29	LR017 (11)
23.b.xii	Pledged Collateral to FHLB	5.L(1)l	26.31	LR017 (13)
23.b.xiii	Pledged Collateral Not Captured in Other Categories	5.L(1)m	26.30	LR017 (12.1)
	Less Derivative Collateral Pledged[3]			LR017 (12.2)
23.b.xiv	Other Restricted Assets	5.L(1)n	26.32	LR017 (14)
23.c	Assets received as collateral, reflected as assets within the F/S and the recognized liability to return.	5.L(4)		
	1 – In the life blank, this reads “loaned to others,” but the RBC instructions indicate “collateral.” This agenda item proposes to update this terminology in the life blank for consistency.			
	2 – These items are duplicated in the P/C and Health RBC blank on page PR014 and XR005, except for 3) below.			
	3 – This reduction is in the RBC Life Formula Only. Derivative collateral pledged is subject to a lower RBC charge of .0039 and is captured separately.			

Existing Authoritative Literature:

SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures

Other Disclosures

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

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

b. The total combined (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[2] in the general and separate accounts[3] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) This disclosure shall include the following restricted asset categories:

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

ii. Collateral held under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

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

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

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

[1] Disclosure of restricted assets shall be included in the annual financial statements and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements.

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

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

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

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

xiv. Other restricted assets.

c. The amount and nature of any assets received as collateral, reflected as assets within the reporting entity's financial statements, and the recognized liability to return these collateral assets, in the general and separate accounts in comparison to total assets and admitted assets.

2024 Annual Statement Instructions – Note 5L: Restricted Assets

L. Restricted Assets

(1) Restricted Assets (Including Pledged)

Disclose the total gross (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) by the reporting entity. Provide the gross amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) by the following categories:

a. Subject to contractual obligation for which liability is not shown

b. Collateral held under security lending agreements

c. Subject to repurchase agreements

d. Subject to reverse repurchase agreements

e. Subject to dollar repurchase agreements

f. Subject to dollar reverse repurchase agreements

g. Placed under option contracts

h. Letter stock or securities restricted as to sale – excluding FHLB capital stock

i FHLB capital stock

j. On deposit with states

k. On deposit with other regulatory bodies

l. Pledged collateral to FHLB (including assets backing funding agreements)

m. Pledged as collateral not captured in other categories

n. Other restricted assets

o. Total restricted assets

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories

For assets pledged as collateral not captured in other categories reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total

separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a narrative summary of each collateral agreement included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as "Pledged as Collateral Not Captured in Other Categories" for 5L(1) above.)

(3) Detail of Other Restricted Assets

For other restricted assets reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a description of each of the other restricted assets included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as "Other Restricted Assets" for 5L(1) above.)

(4) Collateral Received and Reflected as Assets Within the Reporting Entity's Financial Statements

Disclose the following for the general account and separate account:

- Nature of any assets received as collateral reflected as assets within the reporting entity's financial statements
- Book/adjusted carrying value (BACV) of the collateral
- Fair value of the collateral
- The recognized liability to return these collateral assets
- The percentage the collateral asset BACV amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 26 of the asset page (gross and admitted, respectively).

NOTE: The information captured within this disclosure is intended to aggregate the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others, and the information reported in the General Interrogatories.

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

(1) Restricted Assets (Including Pledged)

Restricted Asset Category	Gross (Admitted & Nonadmitted) Restricted						
	Current Year					6	7
	1 Total General Account (G/A)	2 G/A Supporting S/A Activity (a)	3 Total Separate Account (S/A) Restricted Assets	4 S/A Assets Supporting G/A Activity (b)	5 Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)
a. Subject to contractual obligation for which liability is not shown	$	$	$	$	$	$	$
b. Collateral held under security lending agreements							
c. Subject to repurchase agreements							
d. Subject to reverse repurchase agreements							
e. Subject to dollar repurchase agreements							
f. Subject to dollar reverse repurchase agreements							
g. Placed under option contracts							
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock							
i. FHLB capital stock							
j. On deposit with states							
k. On deposit with other regulatory bodies							
l. Pledged as collateral to FHLB (including assets backing funding agreements)							
m. Pledged as collateral not captured in other categories							
n. Other restricted assets							
o. Total Restricted Assets (Sum of a through n)	$	$	$	$	$	$	$

(a) Subset of Column 1
(b) Subset of Column 3

Restricted Asset Category	Current Year			
	8 Total Nonadmitted Restricted	9 Total Admitted Restricted (5 minus 8)	Percentage 10 Gross (Admitted & Nonadmitted) Restricted to Total Assets (c)	 11 Admitted Restricted to Total Admitted Assets (d)
a. Subject to contractual obligation for which liability is not shown			%	%
b. Collateral held under security lending agreements				
c. Subject to repurchase agreements				
d. Subject to reverse repurchase agreements				
e. Subject to dollar repurchase agreements				
f. Subject to dollar reverse repurchase agreements				
Placed under option contracts				
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock				
i. FHLB capital stock				
j. On deposit with states				
k. On deposit with other regulatory bodies				
l. Pledged as collateral to FHLB (including assets backing funding agreements)				
m. Pledged as collateral not captured in other categories				
n. Other restricted assets				
o. Total Restricted Assets (Sum of a through n)			%	%

(c) Column 5 divided by Asset Page, Column 1, Line 28
(d) Column 9 divided by Asset Page, Column 3, Line 28

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories (Contracts that Share Similar Characteristics, Such as Reinsurance and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
.....	$	$	$	$	$	$	$	$	..... %	.....%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total (c)	$	$	$	$	$	$	$	$	..... %	.....%

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)m Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)m Columns 9 through 11 respectively

(3) Detail of Other Restricted Assets (Contracts that Share Similar Characteristics, Such as Reinsurance and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
.....	$	$	$	$	$	$	$	$	..... %	.....%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total (c)	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**..... %**	**.....%**

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)n Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)n Columns 9 through 11 respectively

(4) Collateral Received and Reflected as Assets Within the Reporting Entity's Financial Statements

Collateral Assets	1 Book/Adjusted Carrying Value (BACV)	2 Fair Value	3 % of BACV to Total Assets (Admitted and Nonadmitted *	4 % of BACV to Total Admitted Assets **
General Account:				
a. Cash, Cash Equivalents and Short-Term Investments	$	$	.....%	..... %
b. Schedule D, Part 1	.....	.....	.....%	..... %
c. Schedule D, Part 2, Section 1	.....	.....	.....%	..... %
d. Schedule D, Part 2, Section 2	.....	.....	.....%	..... %
e. Schedule B	.....	.....	.....%	..... %
f. Schedule A	.....	.....	.....%	..... %
g. Schedule BA, Part 1	.....	.....	.....%	..... %
h. Schedule DL, Part 1	.....	.....	.....%	..... %
i. Other			%	%
j. Total Collateral Assets (a+b+c+d+e+f+g+h+i)	$	$	%	%
Separate Account:				
k. Cash, Cash Equivalents and Short-Term Investments	$	$	.....%	..... %
l. Schedule D, Part 1	.....	.....	.....%	..... %
m. Schedule D, Part 2, Section 1	.....	.....	.....%	..... %

n. Schedule D, Part 2, Section 2	.....	.....	.....%	..... %
o. Schedule B	.....	.....	.....%	..... %
p. Schedule A	.....	.....	.....%	..... %
q. Schedule BA, Part 1	.....	.....	.....%	..... %
r. Schedule DL, Part 1	.....	.....	.....%	..... %
s. Other			%	%
t. Total Collateral Assets (k+l+m+n+o+p+q+r+s)	$	$	%	%

* j = Column 1 divided by Asset Page, Line 26 (Column 1)
t = Column 1 divided by Asset Page, Line 27 (Column 1)

** j = Column 1 divided by Asset Page, Line 26 (Column 3)
t = Column 1 divided by Asset Page, Line 27 (Column 3)

	1 Amount	2 % of Liability to Total Liabilities *
u. Recognized Obligation to Return Collateral Asset (General Account)	$	%
v. Recognized Obligation to Return Collateral Asset (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

Ref #2024-20

ANNUAL STATEMENT GENERAL INTERROGATORIES
Instructions – Part 1 – Common Interrogatories

INVESTMENT

25. For the purposes of this interrogatory, "exclusive control" means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution thereof. For purposes of this interrogatory, securities in transit and awaiting collection, held by a custodian pursuant to a custody arrangement or securities issued subject to a book entry system are considered to be in actual possession of the company.

If bonds, stocks and other securities owned December 31 of the current year, over which the company has exclusive control are: (1) securities purchased for delayed settlement, or (2) loaned to others, the company should respond "NO" to 25.01 and "YES" to 26.1.

25.03 Describe the company's securities lending program, including value for collateral and amount of loaned securities, and whether the collateral is held on- or off-balance sheet. Note 17 of Notes to Financial Statement provides a full description of the program.

25.04 Report amount of collateral for conforming programs as outlined in the Risk-Based Capital Instructions.

25.05 Report amount of collateral for other programs.

25.091 The fair value amount reported should equal the grand total of Schedule DL, Part 1, Column 5 plus Schedule DL, Part 2, Column 5. The fair value amount reported amount should also equal the fair value amount reported in Note 5E(5)a1(m).

25.092 The book adjusted/carrying value amount reported should equal the grand total of Schedule DL, Part 1,
Column 6 plus Schedule DL, Part 2, Column 6.

25.093 The payable for securities lending amount reported should equal current year column for payable for securities lending line on the liability page.

26. Disclose the statement value of investments that are not under the exclusive control of the reporting entity within the categories listed in 26.2.

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Ref #2024-20

Excerpt – Annual Statement Blank

25.01	Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 25.03)	Yes [ ] No [ ]
25.02	If no, give full and complete information, relating thereto.....	
25.03	**For securities lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided)**	
	.....	
25.04	**For the reporting entity's securities lending program, report amount of collateral for conforming programs as outlined in the Risk-Based Capital Instructions.**	**$** _____
25.05	For the reporting entity's securities lending program, report amount of collateral for other programs.	$ _____
25.06	Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract?	Yes [ ] No [ ] N/A [ ]
25.07	Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%?	Yes [ ] No [ ] N/A [ ]
25.08	Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending?	Yes [ ] No [ ] N/A [ ]
25.09	For the reporting entity's securities lending program, state the amount of the following as of December 31 of the current year:	
	25.091 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2	$ _____
	25.092 Total book/adjusted carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2	$ _____
	25.093 Total payable for securities lending reported on the liability page	$ _____
26.1	**Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 25.03).**	**Yes [ ] No [ ]**
26.2	**If yes, state the amount thereof at December 31 of the current year:**	
	26.21 Subject to repurchase agreements	**$** _____
	26.22 Subject to reverse repurchase agreements	**$** _____
	26.23 Subject to dollar repurchase agreements	**$** _____
	26.24 Subject to reverse dollar repurchase agreements	**$** _____
	26.25 Placed under option agreements	**$** _____
	26.26 Letter stock or securities restricted as to sale – excluding FHLB Capital Stock	**$** _____
	26.27 FHLB Capital Stock	**$** _____
	26.28 On deposit with states	**$** _____
	26.29 On deposit with other regulatory bodies	**$** _____
	26.30 Pledged as collateral – excluding collateral pledged to an FHLB	**$** _____
	26.31 Pledged as collateral to FHLB – including assets backing funding agreements	**$** _____
	26.32 Other	

26.3 For category (26.26) provide the following:

1 Nature of Restriction	2 Description	3 Amount

Excerpt from Life RBC Instructions – Bolded for Emphasis

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors

When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. **In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced.**

Assets

The total RBC related to assets (i.e., bonds, mortgages, unaffiliated preferred and common stock, separate accounts, real estate and other long-term assets) in MODCO or Funds Withheld reinsurance agreements, should be reduced (increased) by the

amounts of RBC ceded (assumed). There is a separate line in each asset section to achieve this reduction (i.e., "Reduction in RBC for MODCO or Funds Withheld reinsurance ceded agreements")**.** The amount ceded is determined using the assets supporting the ceded liabilities as of Dec. 31. (In some instances, there may be assets in a trust that exceed the amount needed to support the liabilities; only the portion of assets used to support the ceded liabilities is used to determine the ceded RBC). The ceding company will need to supply the assuming company with sufficient information in order for the assuming company to determine the amount of RBC assumed. With the exception of the impact of the size factor, the amount of RBC ceded should be equal to the amount of RBC assumed. Put another way, there should be "mirror imaging" of RBC, except for the impact of the size factor. For MODCO or Funds Withheld reinsurance agreements, there will be no specific, line-by-line inventory of ceded assets and corresponding ceded RBC; however, ceding and assuming companies must keep detailed records and be prepared to produce those records upon request. The ceding company is required to supply the assuming company with sufficient information in order for the assuming company to determine the amount of RBC assumed.

A reinsurer that has not received such information shall calculate MODCO adjustments for reinsurance assumed as follows:

- If the reinsurer has received data for periods prior to the effective date of the RBC filing, a "MODCO liability ratio" will be developed by comparing the MODCO liabilities at the filing date to the MODCO liabilities as of the last date for which data were received. The required capital for MODCO assumed is the required capital as calculated based on these data multiplied by the "MODCO liability ratio."
- • If the reinsurer has never received data from the ceding company, a "MODCO liability ratio" will be developed by comparing the MODCO liabilities at the filing date to the reinsurer's total invested assets (Page 2, Line 12 of the blue blank, or its equivalent). The required capital for MODCO assumed is the reinsurer's required capital as calculated prior to MODCO ceded and assumed adjustments multiplied by the "MODCO liability ratio."

Adjustments for MODCO or Funds Withheld reinsurance agreements should be based on pre-tax factors.

Size Factor
Companies with MODCO or Funds Withheld reinsurance agreements should adjust the company's year-end size factors according to the way the bonds are handled in the treaties. The assuming company includes the bonds that support its share of the liabilities; the ceding company includes the bonds that support its share of the liabilities. No adjustment is made for bonds purchased subsequent to June 30 of the valuation year and that solely support ceded liabilities.

Mortgages
The amount of RBC for mortgages is based upon the ceding company's calculation for the mortgages, or portion of these mortgages, which support the ceded liabilities. Thus, the amount of RBC ceded is equal to the amount of RBC assumed.

Specific Instructions for Application of the Formula

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded - Bonds C-1o
LR045

Column 4: Enter by reinsurer, the amount of C-1o RBC the insurance company has ceded that is attributable to bonds. The "total" should equal the total amount of the reduction in C-1o RBC shown on Line (19) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed - Bonds C-1o
LR046

Column 4: Enter by ceding company, the amount of C-1o RBC the insurance company has assumed that is attributable to bonds. The "total" should equal the total amount of the increase in C-1o RBC shown on Line (20) of page LR002 Bonds.

Ref #2024-20

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded – All Other Assets C-0, C-1o And C-1cs
LR047

Column 4: Enter by reinsurer, the amount of C-0, C-1o And C-1cs RBC the company has ceded that is attributable to all assets except bonds. The "total" should equal the total amount of the reduction of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs
LR048

Column 4: Enter by ceding company, the amount of C-0, C-1o And C-1cs RBC the insurance company has assumed that is attributable to all assets except bonds. The "total" should equal the total amount of the increase in C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.

Excerpt from Health RBC (Identical to P/C RBC)



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OFF BALANCE SHEET AND OTHER ITEMS

		Annual Statement Source	(1) Bk/Adj Carrying Value	(2) Factor	(3) RBC Requirement	(4) Yes/No Response
	Noncontrolled Assets					
(1)	Loaned to Others - Conforming Securities Lending Programs	General Interrogatories Part 1 Line 25.04		0.002		
(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05		0.010		
(3)	Subject to Repurchase Agreements	General Interrogatories Part 1 Line 26.21		0.010		
(4)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22		0.010		
(5)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23		0.010		
(6)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24		0.010		
(7)	Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25		0.010		
(8)	Letter Stock or Securities Restricted as to Sale - Excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26		0.010		
(9)	FHLB Capital Stock	General Interrogatories Part 1 Line 26.27		0.010		
(10)	On Deposit with States	General Interrogatories Part 1 Line 26.28		0.010		
(11)	On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29		0.010		
(12)	Pledged as Collateral - Excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30		0.010		
(13)	Pledged as Collateral to FHLB (Including Assets Backing Funding Agreements)	General Interrogatories Part 1 Line 26.31		0.010		
(14)	Other	General Interrogatories Part 1 Line 26.32		0.010		
(15)	Total Noncontrolled Assets	Sum of Lines (1) through (14)				
(16)	Guarantees for Affiliates	Notes to Financial Statements 14A(8)(C), Column 2		0.010		
(17)	Contingent Liabilities	Notes to Financial Statements 14A(1), Column 2		0.010		
(18)	Is the entity responsible for filing the U.S. Federal income tax return for the reporting income a regulated insurance company?	"Yes", "No" or "N/A" in Column (4)				
(19)	SSAP No. 101 Paragraph 11a Deferred Tax Assets	Notes to Financial Statements, Item 9A(2)(a), Column 3		†		
(20)	SSAP No. 101 Paragraph 11b Deferred Tax Assets	Notes to Financial Statements, Item 9A(2)(b), Column 3		0.010		
(21)	Total Miscellaneous Off-Balance Sheet and Other Items	Lines (15) + (16) + (17) + (19) + (20)				

† If Line (18) Column (4) is "Yes", then the factor is 0.005. If Line (18) Column (4) is "No", then the factor is 0.010. If Line (18) Column (4) is "N/A", then the factor is 0.000.

Denotes items that must be manually entered on filing software.

Ref #2024-20

Excerpt from Life RBC



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 recommends that the Working Group move this item to the active listing and expose SAP clarification revisions to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement (A/S) instructions/template for the restricted asset disclosure in Note 5L to more clearly identify how Modco and FWH assets reported within a ceding company's financial statements shall be captured.

In addition to the revisions that explicitly address Modco/FWH, the A/S revisions propose a new component to the existing disclosure to identify and explain differences between the note and what is captured in the general interrogatories. Although it was originally anticipated that the note and the GI would agree, NAIC staff is aware that there are often differences and that in some instances domiciliary states have directed specific items to be removed from the GI reporting because of the resulting RBC pull / factor impact. This disclosure will highlight those differences to ensure ease of regulator comparisons as well as allow NAIC staff to assess consistency across companies and enable future discussions. NAIC staff recommends that the SAPWG sponsor a blanks proposal to incorporate the Annual Statement instruction revisions.

Although there is a separate agenda item to identify Modco and FWH assets with more granularity, and to assist with RBC impact, this clarification of the aggregate restricted asset disclosure has been recommended to move forward to ensure the restricted asset disclosure is consistently reported.

Upon adoption of the revisions, this agenda item recommends a referral to the Life RBC (E) Working Group to clarify that Modco assets held by a ceding entity that at any time during the year are pledged or used by the ceding entity for their own purpose, such as being used in assets reported to or as collateral to the FHLB

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or in a repurchase or securities lending agreement, are not permitted to be reported as an RBC charge reduction from the RBC formula for invested assets. Such uses would reflect circumstances in which the "entire asset credit or variability in statement value risk associated with the assets supporting the business reinsurance was not transferred to the assuming company for the entire duration of the reinsurance treaty." This referral will also identify the direction to capture modco/FWH assets in SSAP No. 1, paragraph 23c, therefore these assets should not be captured in the RBC reporting of "noncontrolled assets," therefore the existing elements in the RBC formula to adjust modco/FWH from the "noncontrolled" reporting lines may no longer be necessary.

Proposed Revisions:

SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures

23. Reporting entities shall disclose[5] the following information in the financial statements:

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

    b. The total combined (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[6] in the general and separate accounts[7] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

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

        ii. Collateral held under security lending agreements;

        iii. Assets subject to repurchase agreements;

        iv. Assets subject to reverse repurchase agreements;

[5] Disclosure of restricted assets shall be included in the annual financial statements and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements.

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

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

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v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale[8] – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

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

xiii. Assets pledged as collateral not captured in other categories[FN1]; and

xiv. Other restricted assets.

New Footnote 1: Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

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

Note to the Financial Statements – 5L

(1) Restricted Assets (Including Pledged)

Disclose the total gross (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) by the reporting entity. Provide the gross amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) by the following categories:

a. Subject to contractual obligation for which liability is not shown

b. Collateral held under security lending agreements

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

c. Subject to repurchase agreements
d. Subject to reverse repurchase agreements
e. Subject to dollar repurchase agreements
f. Subject to dollar reverse repurchase agreements
g. Placed under option contracts
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock
i FHLB capital stock
j. On deposit with states
k. On deposit with other regulatory bodies
l. Pledged collateral to FHLB (including assets backing funding agreements)
m. Pledged as collateral not captured in other categories
n. Other restricted assets
o. Total restricted assets

Note: Items captured "pledged as collateral not captured in other categories" shall include, but not be limited to, assets pledged under derivative arrangements.

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories

For assets pledged as collateral not captured in other categories reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a narrative summary of each collateral agreement included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as "Pledged as Collateral Not Captured in Other Categories" for 5L(1) above.)

(3) Detail of Other Restricted Assets

For other restricted assets reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a description of each of the other restricted assets included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as "Other Restricted Assets" for 5L(1) above.)

(4) Collateral Received and Assets Held under Modco/Funds Withheld Reinsurance Agreements Reflected as Assets Within the Reporting Entity's Financial Statements

Disclose the following for the general account and separate account regarding collateral received and assets held under modco/funds withheld reinsurance agreements under SSAP No. 1, paragraph 23c:

- Nature of ~~any~~ assets ~~received as collateral~~ reflected ~~as assets~~ within the reporting entity's financial statements
- Book/adjusted carrying value (BACV) of the ~~collateral~~assets
- Fair value of the ~~collateral~~assets
- The recognized liability to return ~~these~~ collateral assets or obligation under the Modco/Funds Withheld Reinsurance Agreements
- The percentage the ~~collateral~~ asset BACV amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 26 of the asset page (gross and admitted, respectively).

Ref #2024-20

Illustrations to the Financial Statements – 5L

This illustration includes the presentation of all restricted assets reported on the financial statements for a total comparison to total assets. This includes the items captured in SSAP No. 1, paragraphs 23.b. and 23.c. (Items captured in paragraph 23.c. should have a corresponding liability recognized, therefore there is no capture within the general interrogatories or capture as a noncontrolled asset in the RBC formula.)

Restricted Asset Category	Current Year						
	8	9	Percentage				
			10	11			
	Total Nonadmitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Nonadmitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)	12 Amount Reported in General Interrogatories	13 Difference from Note and GI	14 GI Ref
a. Subject to contractual obligation for which liability is not shown	$	$	.....%	.....%			
b. Collateral held under security lending agreements	.....	.....	.....	.....			25.04+25.05
c. Subject to repurchase agreements	.....	.....	.....	.....			26.21
d. Subject to reverse repurchase agreements	.....	.....	.....	.....			26.22
e. Subject to dollar repurchase agreements	.....	.....	.....	.....			26.23
f. Subject to dollar reverse repurchase agreements	.....	.....	.....	.....			26.24
g. Placed under option contracts	.....	.....	.....	.....			26.25
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock	.....	.....	.....	.....			26.26
i. FHLB capital stock	.....	.....	.....	.....			26.27
j. On deposit with states	.....	.....	.....	.....			26.28
k. On deposit with other regulatory bodies	.....	.....	.....	.....			26.29
l. Pledged as collateral to FHLB (including assets backing funding agreements)	.....	.....	.....	.....			26.31
m. Pledged as collateral not captured in other categories	.....	.....	.....	.....			26.30
n. Other restricted assets	.....	.....	.....	.....			26.32
o. Collateral Assets Received and on Balance Sheet *(SSAP 1, Paragraph 23.c)*					XXX	XXX	N/A
p. Assets held under Modco Reinsurance Agreements *(SSAP 1, Paragraph 23.c)*					XXX	XXX	N/A
q. Assets held under Funds Withheld Reinsurance Agreements. *(SSAP 1, Paragraph 23.c)*					XXX	XXX	N/A
~~e~~r. Total Restricted Assets (Sum of a through n)	$	$	.....%	.....%	XXX	XXX	

(c) Column 5 divided by Asset Page, Column 1, Line 28
(d) Column 9 divided by Asset Page, Column 3, Line 28

Reporting entities shall explain the differences between amounts reported in Note 5L(1) and the general interrogatories. This shall include all instances in which an amount is reported in column 13 above.

GI Reference	Difference between Note and GI (Per Column 12 above)	Explanation
25.04+25.05		
26.21		
26.22		
26.23		
26.24		
26.25		
26.26		
26.27		
26.28		
26.29		
26.31		
26.30		
26.32		

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories (Contracts that Share Similar Characteristics, Such as Reinsurance (excluding modco/FWH) and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
.....	$	$	$	$	$	$	$	$	..... %	.....%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total (c)	$	$	$	$	$	$	$	$	..... %	.....%
Amount of Total pledged under derivative contracts										
Total Excluding Derivative Collateral										

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)m Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)m Columns 9 through 11 respectively

Staff Note – The amount pledged under derivative contracts should agree to Schedule DB and agree to what is subtracted from the life RBC formula.

(3) Detail of Other Restricted Assets (Contracts that Share Similar Characteristics, Such as Reinsurance (exclude modco/FWH) and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
.....	$	$	$	$	$	$	$	$	..... %	.....%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total (c)	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**$ .....**	**..... %**	**.....%**

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)n Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)n Columns 9 through 11 respectively

Staff Question – Are there other broad categories that should be captured in aggregate subtotals?

(4) Collateral Received and Assets Held under Modco/Funds Withheld (FWH) Reinsurance Agreements Reflected as Assets Within the Reporting Entity's Financial Statements

~~Collateral~~ Assets	1 Book/Adjusted Carrying Value (BACV)			2 Fair Value			3 % of BACV to Total Assets (Admitted and Nonadmitted) *	4 % of BACV to Total Admitted Assets **
	Collateral	Modco	FWH	Collateral	Modco	FWH		
General Account:								
a. Cash, Cash Equivalents and Short-Term Investments	$			$			%	%
b. Schedule D, Part 1				.....			%	%
c. Schedule D, Part 2, Section 1				.....			%	%
d. Schedule D, Part 2, Section 2				.....			%	%
e. Schedule B				.....			%	%
f. Schedule A				.....			%	%
g. Schedule BA, Part 1				.....			%	%
h. Schedule DL, Part 1	.....			.....			%	%
i. Other							%	%
j. Total ~~Collateral~~ Assets (a+b+c+d+e+f+g+h+i)	Collateral	Modco	FWH	Collateral	Modco	FWH	%	%
Separate Account:								
k. Cash, Cash Equivalents and Short-Term Investments	$			$			%	%

l. Schedule D, Part 1	.....			.....			%	%
m. Schedule D, Part 2, Section 1	.....			.....			%	%
n. Schedule D, Part 2, Section 2	.....			.....			%	%
o. Schedule B	.....			.....			%	%
p. Schedule A	.....			.....			%	%
q. Schedule BA, Part 1	.....			.....			%	%
r. Schedule DL, Part 1	.....			.....			%	%
s. Other							%	%
t. Total ~~Collateral~~ Assets (k+l+m+n+o+p+q+r+s)	Collateral	Modco	FWH	Collateral	Modco	FWH	%	%

* j = Column 1 divided by Asset Page, Line 26 (Column 1)
t = Column 1 divided by Asset Page, Line 27 (Column 1)

** j = Column 1 divided by Asset Page, Line 26 (Column 3)
t = Column 1 divided by Asset Page, Line 27 (Column 3)

	1 Amount	2 % of Liability to Total Liabilities *
u. Recognized Obligation to Return Collateral Asset (General Account)	$	%
v. Recognized Obligation to Return Collateral Asset (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

u. Recognized Obligation for Modco assets (General Account)	$	%
v. Recognized Obligation for Modco assets (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

u. Recognized Obligation for FWH (excluding Modco) assets (General Account)	$	%
v. Recognized Obligation for FWH (excluding Modco) assets (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

Ref #2024-20

(4) Disclose whether any of the assets held as collateral or under modified coinsurance (Modco) or funds withheld reinsurance (FWH) agreements have been pledged for another purpose specific to the insurance reporting entity. For example, if the insurance reporting entity has used these assets as the collateral in a securities lending agreement, a repo transaction, pledged as collateral to the FHLB, etc. (For Modco/FWH assets, items pledged on behalf of the reinsurer shall not be captured.)

	Collateral Held	Modco	FWH
a. Securities Lending			
b. Repo / repurchase Agreements			
c. Placed under option contracts			
d. On deposit with states			
e. On deposit with other regulatory bodies			
f. Pledged as collateral to FHLB (including assets backing funding agreements)			
g. Pledged as collateral not captured in other categories			
Total			

Proposed Language for a Referral to the Life RBC (E) Working Group:

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. **In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase or FHLB transaction by the ceding entity at any time over the year, then the reporting entity cannot assert that they have transferred the asset risk or variability and RBC shall not be reduced.**

Staff Review Completed by: Julie Gann, NAIC Staff—October 2024

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing categorized as a SAP clarification and exposed revisions illustrated in the recommendation above to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement instructions/template for the restricted asset disclosure in Note 5L to specify how Modco and FWH assets reported within a ceding company's financial statements shall be reported. The exposed revisions also include a new disclosure to identify whether Modco/FHW assets are pledged by the ceding entity as well as expanded disclosures to detail differences between what is reported in the restricted asset note and what is in the general interrogatories.

On March 24, 2025, Statutory Accounting Principles (E) Working Group adopted, as final, revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, to be effective year-end 2025, to specify

how modco/fund withheld assets shall be captured as restricted assets with minor edits to clarify the "amount" reflected is "book/adjusted carrying value" and to incorporate a December 31, 2025 effective date. The action also included noted support for the Blanks (E) Working Group proposal to revise the Annual Statement instructions/template for the restricted asset disclosure to specify how Modco and FWH assets reported within a ceding company's financial statements shall be reported as well as to expand the restricted asset disclosure as recommended within this agenda item and detail differences between what is reported in the restricted asset footnote and what is in the general interrogatories. With adoption, the Working Group also directed a referral to the Life Risk-Based Capital (E) Working Group to clarify the instructions for Modco or Funds Withheld Reinsurance Agreements for LR045, LR046, LR047 and LR048. The Working Group proposed the following language for consideration by the Life RBC (E) Working Group:

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.

The adopted SSAP No. 1 revisions, with the changes to reference BACV in paragraphs 23b and 23c as well as to incorporate effective date guidance in paragraph 34 are shown as shaded tracked revisions below:

SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures

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

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

[9] Disclosure of restricted assets shall be included in the annual financial statements and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements.

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

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

xvi. Collateral held under security lending agreements;

xvii. Assets subject to repurchase agreements;

xviii. Assets subject to reverse repurchase agreements;

xix. Assets subject to dollar repurchase agreements;

xx. Assets subject to dollar reverse repurchase agreements;

xxi. Assets placed under option contracts;

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

xxiii. FHLB capital stock;

xxiv. Assets on deposit with states;

xxv. Assets on deposit with other regulatory bodies;

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

xxvii. Assets pledged as collateral not captured in other categories[FN1]; and

xxviii. Other restricted assets.

New Footnote 1: Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or

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

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

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

within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

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

Effective Date and Transition

34. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance in paragraphs 17-22, requiring evaluation and disclosure of substantial doubt about an entity's ability to continue as a going concern is effective December 31, 2016, and is required for interim and annual reporting periods thereafter. Early application is permitted. The update to Section 3, Summary Investment Schedule, of Appendix A-001 is effective January 1, 2019. Revisions to the restricted asset disclosure to include information on assets held under modified coinsurance and funds withheld reinsurance agreements, and to require the restricted asset disclosure in quarterly financial statements are effective December 31, 2025.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/att 1e-24-20 - restricted asset clarification.docx

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 24-02: Medicare Part D Prescription Payment Plan

INT 24-02 Dates Discussed

November 17, 2024; February 25, 2025; March 24, 2025

INT 24-02 References

Current:

- *SSAP No. 47—Uninsured Plans*
- *SSAP No. 54—Individual and Group Accident and Health Contracts*
- *SSAP No. 66—Retrospectively Rated Contracts*
- *SSAP No. 84—Health Care and Government Insured Plan Receivables*
- *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*

INT 24-024 Issue

1. The Inflation Reduction Act of 2022 introduced changes to Medicare Part D, which is the voluntary outpatient prescription drug program (Part D), including a new program to offer Part D enrollees the option to pay their out-of-pocket Part D prescription drug costs through monthly payments over the course of the plan year instead of paying the full amount upfront at the pharmacy counter. This program, known as the Medicare Prescription Payment Plan (MPPP), is effective on January 1, 2025.

2. The purpose of this interpretation is to provide statutory accounting and reporting guidance for aspects of the MPPP. This interpretation specifically addresses the MPPP components of Medicare Part D and does not intend to alter the guidance in *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, which offers high-level accounting guidance on the current Medicare Part D program.

MPPP Program Overview

3. The MPPP requires all Medicare prescription drug plans (Part D plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

4. Part D plan enrollees who elect to participate in the MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an MPPP participant's applicable out-of-pocket amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the MPPP participant monthly for any cost-sharing incurred while enrolled in the MPPP.

5. The MPPP will not reduce total out-of-pocket costs for participants' prescription drug purchases for a plan year. The MPPP simply spreads MPPP participants' out-of-pocket Part D costs into monthly payments over the remaining term of the plan year which may help some to better manage their monthly cash flow.

6. Unlike other existing aspects of Medicare Part D, which involve funds due from the federal government for which payment is effectively assured, MPPP installment balance recoverables are due from individual MPPP

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participants. Consequently, Part D plans may pay pharmacies for MPPP participants' out-of-pocket pharmacy claim costs, but some amounts billed to the MPPP participants might be uncollectible. That could occur when an MPPP participant does not pay the full outstanding balance after the required grace period. This raises statutory accounting concerns regarding potential nonadmittance of overdue amounts and impairment of unpaid outstanding recoverables from MPPP participants.

7. To help cover potential uncollectible balances, the Centers for Medicare and Medicaid Services (CMS) allows Part D plan sponsors to include an estimate for MPPP related losses in their plan bids. However, for the initial years, Part D plan sponsors lack directly relevant prior experience in estimating the MPPP program's potential for uncollectible amounts.

8. The government is responsible for the estimated MPPP losses to the extent they are included in plan bids by Part D plan sponsors. Part D plan sponsors receive additional premium revenue from the government, which helps to cover uncollectible balances from MPPP participants. Part D plan sponsors face pricing/underwriting risk relating to the prescription needs of enrollees and may inaccurately estimate the amounts of uncollectible balances to include in plan bids. In addition, there are risks that the costs of uncollectible amounts and other aspects of implementing the MPPP will vary from amounts that had been factored into plan bids.

MPPP Program Requirements for Unpaid Balances

9. Under the MPPP, Part D plan sponsors take on the risk for uncollectible balances not covered by the plan bid. The program rules prohibit or limit many of the common methods used to mitigate loss from uncollectible MPPP balances. Examples of such prohibitions or limitations include the following:

a. **Late Fees, Etc. –** Under the MPPP, late fees, interest payments, or other fees, such as for different payment mechanisms, are not allowed.

b. **Billing and Payment Procedures –** Part D plan sponsors can design their own billing and payment procedures for the MPPP. However, they must prioritize payments towards Part D plan premiums to avoid an enrollee losing their Part D coverage. This rule applies when it is unclear if an enrollee intended a submitted payment to cover their outstanding Part D plan premium or their MPPP balance.

c. **Pharmacies Not Responsible for Balances –** Participation in the MPPP is considered an arrangement between the Part D plan sponsor and the MPPP participant. Pharmacies are not responsible for losses attributed to the uncollectibility of MPPP participants' balances or for collecting unpaid balances from the MPPP participant on the Part D plan sponsor's behalf.

d. **Termination of Participation –** A Part D plan sponsor must terminate an enrollee's participation in the MPPP if the enrollee fails to pay their monthly billed amount. An MPPP participant will be considered to have failed to pay their monthly billed amount only after a required grace period of at least two months. The Part D plan sponsor cannot terminate an enrollee from the Part D plan for nonpayment of any of their MPPP billed amounts. Part D plan sponsors must continue billing amounts owed under the program in monthly amounts up to the maximum monthly cap based on the statutory formula for the remaining duration of the plan year after an enrollee has been terminated.

e. **Reinstatement of Enrollees** – Part D plan sponsors must reinstate terminated MPPP participants if the individual demonstrates good cause for failure to pay the program billed amount within the grace period and pays all overdue amounts billed.

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f. **Preclusion from Subsequent Enrollment** – A Part D plan sponsor may prevent an individual from opting into the MPPP program in a subsequent year if the individual owes an overdue balance to that Part D plan sponsor or to another Part D plan sponsor with the same parent organization. In other words, an individual who owes an overdue MPPP balance to a Part D plan sponsor cannot be barred from enrolling in the MPPP in a subsequent year through a different Part D plan sponsor that does not have the same parent organization.

g. **Compliance with Federal and State Laws –** Part D plan sponsors (and any third parties with whom Part D plan sponsors contract) collecting unpaid balances related to the program must follow other applicable federal and state laws and requirements, including those related to other types of payment plans, credit reporting, and debt collection.

Medical Loss Ratio

10. The current Public Health Act outlines how to calculate medical loss ratio (MLR) rebates, which are generally based on a comparison of incurred health claims and quality improvement activities to premium revenue, considering various factors and adjustments, as prescribed by CMS. *SSAP No. 66—Retrospectively Rated Contracts* provides disclosures related to the MLR. The CMS MLR requirements are separate from the statutory accounting reporting requirements for the MPPP which create the need to report differences between them in the annual statement *Supplemental Health Care Exhibit*.

11. According to the CMS guidance, the losses related to uncollectible MPPP participants' balances are considered for MLR purposes as part of the Part D plan sponsor's administrative expenses. CMS guidance excludes losses attributed to uncollectible MPPP participants' balances from the numerator of the MLR calculation, which is consistent with CMS' treatment in the MLR of other administrative expenses incurred by Part D sponsors. The CMS guidance states that the additional premium revenue attributable to the estimates of MPPP uncollectible amounts included in the Part D plan sponsor plan bids are included in the MLR calculation denominator.

INT 24-02 Discussion

Statutory Accounting and Reporting Considerations for MPPP

12. The Statutory Accounting Principles (E) Working Group reached the following consensus for MPPP statutory accounting and reporting guidance. In addition, Appendix 1 illustrates some basic journal entries which help to show the intended financial statement results.

Recoverables from MPPP Participants

13. Recoverables from MPPP participants shall be accrued and reported as an asset on the asset page in the line for *Health care and other amounts receivable*, when the related payment is made by the Part D plan sponsor to the pharmacy for the out-of-pocket costs incurred on behalf of the MPPP participant.

14. Current recoverables from MPPP participants, meaning those that are less than and up to 90 days overdue, are admitted assets to the extent that they comply with the guidance in this interpretation. Recoverables from MPPP participants are also subject to impairment analysis.

15. Uncollected MPPP recoverables more than 90 days overdue are nonadmitted. The due date for aging of the MPPP recoverables shall follow the program billing guidelines.

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16. If a recoverable from an MPPP participant is fully collected, the amounts received by the Part D plan sponsor will equal the corresponding out-of-pocket payment it made for a pharmaceutical claim. In those cases, there will not be an income statement impact regarding claims (or claims adjusting expenses).

Impairments

17. Uncollected recoverables from MPPP participants are subject to an impairment analysis which shall be assessed using the evaluation guidelines in *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets.* However, when uncollectible recoverables from MPPP participants are written off, the expense shall be reflected as an incurred Medicare Part D prescription drug claims in the statutory income statement.

Out-of-Pocket MPPP Pharmacy Payments

18. When the Part D plan sponsor pays out-of-pocket drug claims to the pharmacy, a claims expense, a contra claims expense, and a contra claims expense account recoverable are recorded. The contra claims expense, or similar mechanism, is recorded to prevent initial claims expense recognition in the income statement so there is zero initial impact to the income statement. This is because there is an amount recoverable from the MPPP participant, and to the extent that the MPPP participant pays in full, there should not be any claims recognition. This is analogous to the handling of anticipated pharmaceutical rebates or anticipated subrogation recoveries.

19. If the MPPP participant pays the amount due in full, there will be no income statement impact in claims expenses resulting from the Part D plan sponsor's payment of the MPPP participants out-of-pocket costs to the pharmacy. This is because the MPPP participant's subsequent monthly payments to the Part D plan sponsor have fully offset the initial pharmacy payments. In such cases, the MPPP recoverable will be reduced as payments are collected and there would be no income statement impact.

20. If the MPPP participant's balance is not repaid in whole or in part, there will be an income statement impact to reflect the paid amount in claims expense for the uncollectible MPPP balance which has been evaluated as impaired and written off. Since there is a recoverable from the MPPP participant there should be no income statement amount for an incurred claim until the related MPPP recoverable is written off as uncollectible based on impairment analysis.

21. When the recoverable from the MPPP participant is evaluated as impaired, the contra claims expense is decreased by the amount of the MPPP recoverable that is written off. This results in the incurred Medicare prescription claim reported reflecting the uncollectible recoverable from MPPP participants for statutory reporting. The premium to offset these claims is included in Medicare premium bids, so reporting the uncollectible MPPP amounts as losses allows the statutory accounting loss ratio to reflect incurred Medicare Part D prescription costs, including the MPPP uncollectible amounts which have been impaired and written off.

Administrative Costs

22. Other costs, e.g., those incurred by Part D plan sponsors in implementing and administering the MPPP program and related collections, are included in the administrative expenses of the Part D plan sponsor and are not included in the claim expenses or claim adjustment expenses.

MLR Reporting Difference

23. Note that the statutory reporting of the written off (impaired) recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS requires Part D plan sponsors to report losses from impairment write-offs of uncollectible recoverables from MPPP participants as administrative amounts and, thus, such losses are excluded from the numerator in the CMS MLR. For loss ratios

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determined under statutory accounting, and pursuant to the guidance in this INT 24-02, such amounts are reported as claims expense and included in the numerator of the loss ratio.

INT 24-02 Status

24. This interpretation is effective March 30, 2025.

25. No further discussion is planned.

Appendix 1 - Illustrative Journal Entries

Medicare Prescription Payment Plan Scenarios			
	Claims	**Receivable**	**Cash**
Initial entries for all scenarios *Assumed to have been recorded by the Part D plan sponsor prior to Scenarios 1 – 3.*			
DR Claims Expense *To represent claims expenses incurred on behalf of the MPPP participant.*	$ 2,000		
CR Cash *To represent the $2,000 paid by the Part D plan sponsor to the pharmacy on behalf of the MPPP participant.*			$ (2,000)
DR Healthcare Receivable *To represent the amount due to the Part D plan sponsor from the MPPP participant, which the MPPP participant must pay over the policy term.*		$ 2,000	
CR Claims A/R (contra-claims expense) *To be reported within the claims expense line, essentially a contra-claims expense, and represents the amount due to the Part D plan sponsor from the MPPP participant which the MPPP participant must pay over the policy term. This offsets the claims expense amount, so results in a current net $0 impact on the income statement, but both the DR and CR on the income statement are in claims expense.*	$ (2,000)		
Scenario 1 - The MPPP participant pays their full amount of $2,000 to the Part D plan sponsor.			
DR Cash T*o record receipt of the MPPP participant's payment in full.*			$ 2,000
CR Healthcare Receivable *The net income statement impact remains at $0, because the original claims expense was offset by the contra-claims expense (Claims A/R), and since the full $2,000 was received from the MPPP participant, there are no further income statement journal entry impacts.*		$ (2,000)	
Scenario 1 Net result on Financial Statements	**$ -**	**$ -**	**$ -**
Scenario 2 - The MPPP participant pays $1,500 out of the $2,000 to the Part D plan sponsor and does not pay the remaining $500.			
DR Cash T*o record receipt of MPPP participant partial payment of outstanding balance.*			$ 1,500

CR Healthcare receivable *To reduce MPPP participant receivable for amounts paid.*		$ (1,500)	
DR Claims A/R (contra-claims expense) *To represent the write-off of the receivable. This results in the Part D plan sponsor having a total income statement impact debit to claims expense of $500, represented as the initial $2,000 claims expense for the out-of-pocket paid to the pharmacy by the Part D plan sponsor, offset by the $1,500 received from the MPPP participant.*	$ 500		
CR Healthcare receivable *To write-off the remaining uncollectible amount as impaired*		$ (500)	
Scenario 2 Net result on Financial Statements	**$ 500**	**$**	**$ (500)**
Scenario 3 - The MPPP participant does not pay any of the $2,000 owed to the Part D plan sponsor.			
DR Claims A/R (contra-claims expense) *To represent the write-off of the amount anticipated to be paid by the MPPP participant. This results in the income statement impact to the Part D plan sponsor being a debit of $2,000, for the amount paid to the pharmacy by the Part D plan sponsor and not reimbursed by the MPPP participant.*	$ 2,000		
CR Healthcare receivable *To represent the write-off of the $2000 receivable.*		$ (2,000)	
Scenario 3 Net result on Financial Statements	**$ 2,000**	**$ -**	**$ (2,000)**

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/att 1f-int 24-02 - medicare part d mppp 3-24-25.docx

Interpretation of the Emerging Accounting Issues (E) Working Group and Statutory Accounting Principles (E) Working Group

INT 05-05: Accounting for Revenues Under Medicare Part D Coverage

INT 05-05 Dates Discussed

September 28, 2005; December 3, 2005; March 24, 2018; August 4, 2018; November 17, 2024; February 25, 2025; March 24, 2025

INT 05-05 References

Current:
SSAP No. 47—Uninsured Plans
SSAP No. 54—Individual and Group Accident and Health Contracts
SSAP No. 66—Retrospectively Rated Contracts
SSAP No. 84—Health Care and Government Insured Plan Receivables
INT 24-02: Medicare Part D Prescription Payment Plan

INT 05-05 Issue

1. The Medicare Modernization Act of 2003 (MMA) created a new program, commonly known as Medicare Part D, whereby Medicare recipients may obtain prescription coverage offered by insurers who have been approved by the Centers for Medicare and Medicaid Services (CMS). Insurers who offer Medicare Part D coverage will, starting in January 2006, receive several different types of funds relating to the program. Some of these funds relate to portions of the coverage that require an annual reconciliation, resulting in the return of any excess funds received. Other funds may be received (or may be required to be returned) to offset experience that is especially unfavorable (or, respectively, favorable).

2. How should the various components of the funds received or receivable by an insurer from Medicare Part D coverage be accounted for?

INT 05-05 Discussion

3. The attached appendix provides a listing of terms to which the CMS ascribes a specific meaning. This list has been enhanced to include other terms in order to facilitate consistent application for accounting and the NAIC's risk-based capital (RBC) formula. It should be noted that the terms included in the attached appendix are, for the most part, defined by the CMS. Consequently, the term "reinsurance payment" does not represent actual reinsurance as defined by *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*.

4. The Emerging Accounting Issues (E) Working Group reached a consensus to adopt the following guidance as it applies to the various funds to be received under the Medicare Part D program. The funds should be accounted for in accordance with one of the three SSAP's outlined below:

a. Specific funds received as reimbursements (or advance payments) for uninsured claims under a partially uninsured plan should be accounted for under SSAP No. 47. These funds include "reinsurance payments," "Coverage Gap Discount Program" payments and "low-income subsidy (cost-sharing portion)." These funds are paid by the government for a portion of claims above the out-of-pocket threshold or relate to prescription drug plan (PDP) payments for all or a portion of the deductible, the coinsurance and the co-payment amounts for low-income beneficiaries. The CMS provides advance funding to the Part D sponsors. The Part D sponsor uses those advances to provide point-of-sale drug discounts to participants. The CMS invoices the prescription drug

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manufacturers. The payment reconciliation process ensures that the Part D sponsor is paid dollar for dollar for coverage gap discounts advanced at the point of sale, based on accepted prescription drug event (PDE) data, and that any unused excess advances from the government are repaid. The Coverage Discount Gap Program does not apply to low-income beneficiaries.

b. Specific funds received by the PDP sponsor from either the Medicare Part D enrollee or the government as payment for standard coverage that will be subject to retrospective premium adjustments should be accounted for under SSAP No. 66. These funds include "direct subsidy," "low-income subsidy (premium portion)," "beneficiary premium (standard coverage portion)," "Part D payment demonstration" and "risk corridor payment adjustment." The funds noted above have a final policy amount that is calculated based on the loss experience of the insured during the term of the policy, therefore should be treated as such.

c. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54. These funds include "beneficiary premium (supplemental benefit portion)" as these payments are considered to be standard premium payments that do not meet the definitions under SSAP No. 47 or SSAP No. 66 as defined in paragraph 4.a. and paragraph 4.b. of this interpretation.

d. The Medicare Part D Prescription Payment Plan shall follow the guidance in *INT 24-02: Medicare Prescription Payment Plan*.

5. The collectibility and any nonadmission of amounts receivable from the government insured or uninsured plans are addressed in SSAP No. 84, paragraph 22, and SSAP No. 47, paragraph 10 and paragraph 11, respectively.

INT 05-05 Status

6. On August 4, 2018, the Statutory Accounting Principles (E) Working Group updated this interpretation to add a description of the Coverage Gap Discount Program, amend existing guidance on program payments and update definitions. On March 24, 2025, the Working Group updated this interpretation to reference guidance in INT 24-02.

7. No further discussion is planned.

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Appendix – Commonly Used Terms for Medicare Part D Coverage

The federal Centers for Medicare and Medicaid Services (CMS) oversees the Medicare Part D prescription drug coverage, including coverage provided through a stand-alone prescription drug plan (PDP) and coverage provided as part of a Medicare Advantage plan. The CMS ascribed specific meaning to most of the following terms. Other terms have been defined below in order to facilitate consistent application.

Beneficiary Premium (Standard Coverage Portion) – The amount received from the Part D enrollee (directly, or from the CMS after being withheld from Social Security benefits) as payment for the standard coverage. This includes any late enrollment penalties that the PDP sponsor receives for an enrollee. The beneficiary premium is accounted for as health premium.

Beneficiary Premium (Supplemental Benefit Portion) – The amount received from the Part D enrollee (directly, or from the CMS after being withheld from Social Security benefits) as payment for supplemental benefits. The beneficiary premium is accounted for as health premium.

Coverage Gap Discount Program – The federal Affordable Care Act amended the Health Care and Education Act of 2010 (H. R. 4872) (HCERA) in 2011 to establish a discount program that would make manufacturer discounts available to applicable Medicare beneficiaries receiving applicable covered Part D drugs while in the coverage gap. Part D sponsors must provide the discounts for the applicable drugs in the coverage gap at point-of-sale. The CMS coordinates the collection of discount payments from manufacturers and payment to Part D sponsors that provided the discount to applicable beneficiaries through a contractor. The coordination involves a standard process for paying Part D sponsors based on new information submitted to the CMS on prescription drug event data. The Coverage GAP Discount Program is reconciled quarterly.

Coverage Year Reconciliation – A reconciliation made after the close of each calendar year to determine the amounts that a PDP sponsor is entitled to for the low-income subsidy (cost-sharing portion), the reinsurance payment, and the risk corridor payment adjustment. To the extent that interim payments (if any) from the CMS exceeded the amounts determined by the reconciliation, the PDP sponsor must return the excess to the government; to the extent that interim payments (if any) from the CMS fell short of the amounts determined by the reconciliation, the government will make an additional payment to the PDP sponsor. The coverage year reconciliation results in the low-income subsidy (cost-sharing portion) and the reinsurance payment being essentially a self-insured (by the government) component of the Part D coverage, subject to SSAP No. 47. The coverage year reconciliation also results in the treatment of the risk corridor payment adjustment as a retrospective premium adjustment, subject to SSAP No. 66.

Direct Subsidy – The amount the government pays to the PDP sponsor for the standard coverage. These payments are accounted for as health premium.

Low-Income Subsidy (Cost-Sharing Portion) – The amount the government pays to the PDP sponsor for additional benefits provided to low-income enrollees. The additional benefits may include payment for some or all of the deductible, the coinsurance, and the co-payment above the out-of-pocket threshold. These payments are accounted for as payments made under a self-insured plan.

Low-Income Subsidy (Premium Portion) – The amount the government pays to the PDP sponsor for low-income enrollees in lieu of part or all of the beneficiary premium (standard coverage portion). These payments are accounted for as health premium.

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PDP Sponsor – The entity that provides stand-alone Part D coverage (as opposed to Part D coverage provided through a Medicare Advantage plan).

Reinsurance Payment – An amount paid by the government for benefit costs above the out-of-pocket threshold (see "Standard Coverage"). Generally, when costs exceed the out-of-pocket threshold, the government pays a specified percentage of the costs, the enrollee pays a percentage (or the specified co-payments which are updated based on cost trends for generic and for brand-name prescriptions), and the PDP sponsor pays the remainder. The amount paid by the government is treated as a claim payment made by a self-insured benefit plan rather than as revenue to the PDP sponsor, and the claims do not flow through the PDP sponsor's income statement. In cases where the government prepays the reinsurance payment on an estimated basis, the prepayment is treated as a deposit, which again does not pass through the PDP sponsor's income statement. The amount paid by the enrollee is paid directly to the pharmacy; therefore there is no required accounting for this amount by the PDP sponsor.

Part D Payment Demonstration – A payment from the government to a PDP sponsor participating in the CMS's Part D Payment Demonstration. The payment demonstration is a special arrangement in which the PDP sponsor receives a predetermined per-enrollee capitation payment and the government no longer provides reinsurance for the specified percentage (example 80%) of costs in excess of the out-of-pocket threshold. Rather, the PDP sponsor assumes the risk for the specified percentage (example 80%) of costs, in addition to its normal percentage (example 15%) share of costs in excess of this threshold. However, risk corridor protection does still apply to this specified percentage (example 80%) share of costs. These payments are accounted for as health premium.

Reinsurance Coverage – The Medicare Part D provision under which the PDP sponsor may receive a reinsurance payment. This does not include payments under the Part D Payment Demonstration.

Risk Corridor Payment Adjustment – An amount by which the government adjusts its payments to the PDP sponsor, based on how actual benefit costs vary from the costs anticipated in the PDP sponsor's bid for the Part D contract (the "target amount" of costs). The government establishes thresholds for symmetric risk corridors around the target amount, using percentages of the target amount. If actual costs exceed the target amount but are less than the first threshold upper limit, then no adjustment is made. Risk corridor payment adjustments are accounted for as retrospective premium adjustments on retrospectively rated contracts.

Risk Corridor Protection – The Medicare Part D provision under which the PDP sponsor may receive (or pay) a Risk Corridor Payment Adjustment. Most employer plans providing Medicare Part D are not eligible for Risk Corridor Protection.

Standard Coverage – The Part D benefit design that conforms to certain standards prescribed by the government. The standard coverage comprises: no coverage for an annual initial deductible; coverage net of a coinsurance provision (the percentage of costs are payable by the insured) for costs up to an initial coverage limit; a range beyond the initial coverage limit (sometimes called the "coverage gap") in which the insured drug manufacturers and the PDP sponsor (for example, by 2020 insureds who are eligible for drug manufacturer discounts will pay 25% for qualifying brand and generic drugs, the PDP sponsor will be responsible for 25% of qualifying brand and 75% of generic drugs, and the drug manufacturer will be responsible for 50% of qualifying brand drugs); and an annual out-of-pocket threshold above which the insured pays the greater of a specified co-payment or a specified percentage of the drug cost. The various limits and thresholds are set at specified dollar amounts, which will be increased in later years based on the growth in drug expenditures. Wherever the term "standard coverage" is used as part of these instructions, the same treatment would be applied to coverage that has been approved as actuarially equivalent coverage. With respect to amounts above the out-of-pocket threshold, see the definitions of "Reinsurance Payment" and "Part D Payment Demonstration."

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Supplemental Benefits – Benefits in excess of the standard coverage. These benefits typically will cover some portion of the deductible, the co-payments, or the coverage gap between the initial coverage limit and the out-of-pocket threshold. Supplemental benefits are part of an enrollee's Part D coverage, so they are not placed in the "Other" category in the RBC formula. However, they are not subject to either the reinsurance payment or the risk corridor payment adjustment, so they receive less favorable RBC treatment than the standard coverage.

[1] https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/att 1g-int 05 - accounting for revenues under medicare part d.docx

Ref #2024-24

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

Issue: Medicare Part D – Prescription Payment Program

Check (applicable entity):

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

Description of Issue:
This agenda item has been drafted to develop statutory accounting guidance in response to changes to the Medicare Part D (Part D) prescription drug program which goes into effect in 2025. At a high level, the Medicare Prescription Payment Program (MP3) requires insurers to pay pharmacies at the point of sale the out-of-pocket costs of enrollees who have opted into the MP3. The enrollees then have the remaining policy term to make installment payments to the insurer. (The policy term typically goes from January through December, so a cost incurred in March, would be repaid through installments ending in December.)

Interpretation (INT) 05-05: Accounting for Revenues Under Medicare Part D Coverage provides high-level accounting guidance on the current Part D program. INT 05-05 includes some basic guidance, but primarily provides guidance by referring to existing statements for specific aspects of the program.

A unique aspect of the updated program is having the insurer pay the pharmacy at the point of sale and seek reimbursement from enrollees. Most of the existing statutory accounting guidance on amounts recoverable from enrollees contemplates premium receivables or amounts due from a governmental payor.

Statutory accounting questions include, 1) where to report the initial point of sale payment to the pharmacy and the related installment receivables, 2) how to account for the prescription drug point of sale payments, and 3) when to write-off and or nonadmit overdue amounts.

Starting with plan year 2025, any Part D enrollee may opt into the program. Enrollees can also opt out of the program and will have differing options to repay their outstanding balance.

The program does not change the Part D enrollee's total out of pocket costs. If a participant fails to pay the amount, they are billed by the Part D sponsor and their participation in the program may be terminated following a required two-month grace period. The Medicare Part D plan sponsor is not permitted to terminate the individual's enrollment in the Part D plan due to failure to pay MP3 bills. Part D plan sponsors must also have a reinstatement process in place to allow individuals to resume participation in the MP3 in the same plan year.

Part D sponsors are required to treat any unsettled balances owed by enrollees under the MP3 as plan losses; Centers for Medicare & Medicaid Services (CMS) considers these unsettled balances as part of the plan's administrative costs. Costs of implementing the MP3 program and program collections are included in the administrative expenses of the Part D plan and are not included in the claim expenses or claim adjustment expenses.
CMS requires several reporting requirements and ongoing monitoring.

CMS has specific guidance on the treatment of unsettled balances in the medical loss ratio (MLR). MLR is the share of revenue used for incurred claims and quality improvement activities, rather than the share of revenue used for

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administrative costs and profit. Therefore, **excluding unsettled balances from the numerator of the MLR calculation is consistent** with the statutory direction to treat unsettled balances as plan losses and CMS' approach to other administrative expenses incurred by Part D sponsors.

The CMS guidance notes that unsettled balances **are included in the denominator of the MLR calculation**. The Act requires Part D sponsors to treat any unsettled balances owed by participants under the MP3 as plan losses and allows Part D sponsors to include unsettled balances assumed as losses in their premium bids. Consequently, Part D sponsors will receive revenue covering these assumed losses through their direct subsidy and premium payments, which should be included in the denominator of the MLR.

Health insurance industry trades, America's Health Insurance Plans (AHIP) and Blue Cross Blue Shield Association (BCBSA) have also coordinated with NAIC staff and submitted information on the programs.

Existing Authoritative Literature:
INT 05-05: Accounting for Revenues Under Medicare Part D Coverage is an interpretation of the following statements. It provides guidance that primarily references existing guidance in the SSAPs interpreted.

- *SSAP No. 47—Uninsured Plans*
- *SSAP No. 54—Individual and Group Accident and Health Contracts*
- *SSAP No. 66—Retrospectively Rated Contracts*
- *SSAP No. 84—Health Care and Government Insured Plan Receivables*

The CMS website has several guidance documents on the updates to the program.
https://www.cms.gov/inflation-reduction-act-and-medicare/part-d-improvements/medicare-prescription-payment-plan

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 Review Completed by: Robin Marcotte - NAIC Staff October 2024

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and take the actions listed below:

1. Expose the draft interpretation *INT 24-02: Medicare Part D Prescription Payment Program* and expose minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* as illustrated in the attachment. The edits to INT 05-05 adds reference to the new INT 24-02 regarding Medicare Part D prescription payment plans, but does not otherwise change the guidance in INT 05-05.
2. Send notice of the exposure to the Health Insurance (B) Committee and Health Risk-Based Capital (E) Working Group
3. Direct NAIC staff to coordinate with the Blanks (E) Working Group to develop an annual statement blanks proposal in the interim and to develop disclosures for future inclusion in relevant SSAPs. Preliminary

recommendations would include the list below, but more research on CMS reporting may also identify other relevant items:

a. Amounts recoverable on Medicare Part D installments due from enrollees.
b. Aging of Medicare Part D installments due from enrollees more than 90 days overdue in categories similar to what is used for premium receivables.
c. Information nonadmitted Medicare Part D installments due from enrollees.
d. Information on write-offs of Medicare Part D installments due from enrollees.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as SAP clarification, and exposed tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* as well as minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, as described above. The Working Group directed notice of the exposures to the Health Insurance (B) Committee and Health Risk-Based Capital (E) Working Group. In addition, NAIC staff were directed to coordinate on the annual statement blanks proposals and to develop disclosures for future discussion.

On February 25, 2025, the Statutory Accounting Principles (E) Working Group exposed additional revisions to tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* and re-exposed the minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* for a shortened comment period ending on March 5, 2025 to allow for discussion at the Spring National Meeting. In addition, the Working Group directed NAIC staff to continue with the blanks proposals on this topic with the goal of incorporation into the 2025 annual statement instructions.

The additional revisions to INT 24-02 incorporated most of the revisions suggested by health industry trade representatives NAIC has also included a few additional clarifications, however, the three entirely new proposed paragraphs suggested in the comment letter were not incorporated and an existing paragraph was deleted as redundant. The exposure also did not incorporate the optional guidance wording that was proposed for the initial paragraph on recording of out-of-pocket MPPP pharmacy payments as it proposed that the methodology be optional, which would be inconsistent with the illustration. However, more comments are requested on other possible methodologies that do not record a contra claim expense which is not recognized until the receivable is determined to be uncollectible and is written-off as an incurred claims expense. If additional language is recommended, modifications to the illustration are also requested.

The majority of the new revisions are terminology revisions which did not change the key provisions of the prior exposure. The revised INT 24-02 retains the key points noted in the summary section above includes the following key terminology revisions:

a. MP3 to MPPP
b. Member to enrollee (in Part D Plan)
c. Part D plan to Part D plan sponsor
d. MP3 enrollee to MPPP participant
e. Enrollee balance to recoverable from MPPP participant.

On March 24, 2025, Statutory Accounting Principles (E) Working Group adopted, as final, INT 24-02: Medicare Part D Prescription Payment Plans with additional revisions primarily suggested by industry; and the previously exposed revisions *INT 05-05:Accounting for Revenues Under Medicare Part D Coverage*, which provide statutory accounting guidance in response to changes to the Medicare Part D (Part D) prescription drug program. INT 24-02 and the revisions to INT 05-05 are effective for March 30, 2025 to allow for first quarter 2025 reporting.

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group

FROM: Greg Chew, Vice-Chair, Financial Analysis (E) Working Group

DATE: January 7, 2024

RE: Investment Concentrations in Life Reinsurance Transactions

The Financial Analysis (E) Working Group (FAWG) meets periodically to discuss, among other things, potentially troubled insurers and insurance groups. During these meetings, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following issue to the attention of your group.

In recent years, there has been an increase in the number and significance of coinsurance with funds withheld and modified coinsurance reinsurance arrangements ceding blocks of life and annuity liabilities to offshore, third-party reinsurers that are unauthorized. These arrangements, and other similar structures, often involve the transfer of investment advisory responsibilities for the assets supporting the business to the reinsurer or one of its affiliates, although the assets remain on the books of the ceding insurer to collateralize the transaction and/or support of the liabilities.

In a recent troubled company situation, the third-party investment advisor/reinsurer reallocated a significant portion of the assets into securities that were later discovered to be affiliated with and/or related to the investment advisor/reinsurer. However, this concentration was not readily apparent to the domestic regulator, as the securities were issued by various legal entities and the related party relationships were not identifiable in the ceding insurer's Supplemental Investment Risk Interrogatories. After the discovery of this concentration through an examination, the domestic regulators also identified significant concerns regarding the valuation of the securities.

The accurate and complete reporting of potential investment concentrations, particularly of affiliated or related parties of an appointed investment advisor/reinsurer, is of critical importance to regulators in ongoing solvency monitoring. As coinsurance with funds withheld and modified coinsurance arrangements where investment advisory services are transferred to the reinsurer are becoming increasingly common and more complex, there is the potential for investment concentrations in assets affiliated with or related to the reinsurer to go unidentified through the existing statutory reporting framework. As such, FAWG recommends that the Statutory Accounting Principles (E) Working Group (SAPWG) consider whether enhanced reporting or disclosures could be developed in this area to identify such concentrations.

Thank you for your consideration of this referral. If there are any questions regarding the issues discussed, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

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

DATE: February 21, 2025

RE: Proposal 2025-05-L—Asset Concentration L010 Referral

On Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received, discussed, and exposed for public comment a proposal from the American Council of Life Insurers (ACLI) seeking to clarify the LR010 instruction that certain "SVO-designated non-bond debt securities" (as defined below) can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

Background

With effect from 2025 statutory filings, the following Schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to asset valuation reserve (AVR) equity lines 22 through 28, thereby being afforded a base charge of C-1 bond factors (NAIC 1-6) on Life Risk-Based Capital (RBC) LR008. However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

Schedule BA	Description
Line 0199999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0299999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

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Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0999999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

Note that similar investments that are NOT designated by the SVO are afforded a 30% base charge and treated as "Other Schedule BA Assets" (15%) for asset concentration factor purposes and, thus, is outside of the scope of this proposal.

As seen in the proposal (Attachment A), ACLI's Proposal 2025-05-L seeks to clarify LR010 instruction such that "SVO-designated non-bond debt securities" obtain asset concentration factor treatment akin to bonds in LR002 (**Option 1**). This option will put these investments' concentration RBC treatment the same pre- and post-principle-based bond definition adoption. (Note that the base C-1 charge treatment is slightly different after the adoption of the principle-based bond definition, moving from a 20 designation-category framework to NAIC 1-6 bond charges. Yet, this change is neither contended nor the subject of Proposal 2025-05-L.)

Alternatively, these investments can be assessed an asset concentration factor of 15% for "Other Schedule BA Assets." (**Option 2**) This option represents a hybrid approach where the base factors are NAIC-designation-driven, and asset concentration factor is flat at 15%.

Since the impetus of Proposal 2025-05-L is the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group (SAPWG), the Working Group would appreciate consideration by SAPWG for possible comments to ensure accurate determination among Option 1, Option 2, or any other options.

If you have any questions, please contact NAIC staff support Maggie Chang at mchang@naic.org.

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

Attachment A: Proposal 2025-05-L

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Attachment One-J
Accounting Practices and Procedures (E) Task Force
3/25/25

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve Evaluation (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & (E) Working Group

DATE: 2/13/2025	**FOR NAIC USE ONLY**
CONTACT PERSON: Colin Masterson	Agenda Item # 2025-05-L
TELEPHONE: 202-624-2463	Year 2025
EMAIL ADDRESS: ColinMasterson@acli.com	**DISPOSITION**
ON BEHALF OF: American Council of Life Insurers	**ADOPTED:**
NAME: Colin Masterson	☐ TASK FORCE (TF) _____
TITLE: SR. Policy Analyst	☐ WORKING GROUP (WG) _____
AFFILIATION: American Council of Life Insurers	☐ SUBGROUP (SG) _____
ADDRESS:	**EXPOSED:**
	☐ TASK FORCE (TF) _____
	☐ WORKING GROUP (WG) _____
	☐ SUBGROUP (SG) _____
	REJECTED:
	☐ TF ☐ WG ☐ SG _____
	OTHER:
	☐ DEFERRED TO _____
	☐ REFERRED TO OTHER NAIC GROUP
	☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a result of the NAIC Principles-Based Bond Project, some assets are moving from Schedule D to Schedule BA. Though there are other implications, ACLI members have identified what seems to be an ambiguous Schedule BA fixed income asset concentration charge. Asset concentration (LR010) generally intends to double the risk-based capital pretax factor of the ten largest asset exposures, excluding lower risk categories. There is a maximum overall (basic formula plus asset concentration) pretax factor of 45%.

An Overview of RBC treatment of fixed income assets can be found below:

RBC Treatment of Fixed Income Assets		
Annual Statement	Schedule D	Schedule BA
C-1 RBC Section	LR002	LR008
C-1 Structure	20-classes	6-classes
C-1 Reflects Bond Size Factor Adjustment	Yes	No
Asset Concentration Structure	20-classes	Ambiguous

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However, we have noticed that LR010 excludes specific blanks for Schedule BA fixed income assets. Under current instructions, potential options for Schedule BA fixed income assets on LR010 include a 20-class Bond Section or Other Schedule BA Assets.

For example, please find below an illustration of a rated 2.A fixed-income asset moving from Schedule D to Schedule BA:

Asset Concentration Treatment	(a) Basic Formula Sch. BA (6-class)	(b) Asset Concentration LR010	(c = a + b) Overall C-1	(c / a) Overall C-1 / Basic Formula
20-class Bond Section	1.26%	1.261%	2.521%	200%
Other Schedule BA Assets	1.26%	15%	16.26%	1290%

As potential remediations to address these ambiguities, ACLI is proposing changes to LR010 instructions as illustrated.

Additional Staff Comments:

Staff Note: With effect from 2025 Annual Statement filings, the following schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to AVR Equity line 22 through 28, thereby being afforded a base charge of C-1 **Bond factors** (NAIC 1-6) on RBC LR008, which is ultimately categorized as **C-1o** risk component.
However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

ACLI proposal seeks to clarify LR010 instruction such that these "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002, i.e., **C-1o** risk component (Option 1). Option 1 will put the investments' RBC treatment almost the same pre and post – Principle-Based Bond Definition adoption.

Alternatively, these investments will be assessed an asset concentration factor of 15% for Other Schedule BA Assets, which will ultimately be categorized as **C-1o** risk component as well. (Option 2). Option 2 will be a hybrid approach wherein the base factor are NAIC-designation-driven whereas asset concentration factor is flat at 15%.

Schedule BA	Description
Line 0199999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
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Note that similar investments that are NOT designated by the SVO are afforded 30% base charge and treated as Other schedule BA Assets (15%) for asset concentration factor purposes and thus is outside of the scope of this proposal.

NAIC Staff look to the Working Group to determine how to clarify the LR010 Asset Concentration Factor instruction and/or blanks to capture these specific asset types. To ensure accurate determination among Option 1, Option 2 or any other options, NAIC staff recommend that the LRBCWG refer the proposal to SAPWG for review with a request for comments.

**** This section must be completed on all forms.** **Revised 2-2023**

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/sapwg/att 1jb-2025-05-l asset concentration.docx

ASSET CONCENTRATION FACTOR
LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids,**~~ CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash and short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds, **including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table,** and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA **joint ventures**, partnerships, **limited liability and other fund structures** should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds~~,~~ **or** NAIC 1 unaffiliated preferred stock, ~~**or NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. **Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the '*Other Invested Assets with Underlying Characteristics of Bonds*' AVR category, use the NAIC Designation and NAIC Designation Modifier from the '*NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol*' column as reported on Schedule BA – Part 1.**The RBC filing software automatically allows for an overall 45% RBC cap.



2025 Spring 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
Proposed Accounting Standards Update—*Agenda Consultation*	June 30, 2025

The purpose of the Invitation to Comment (ITC) is to solicit broad stakeholder feedback about the future standard-setting agenda of the Financial Accounting Standards Board (FASB). The feedback on the ITC is critical to ensure that the FASB continues to allocate its finite resources to standard-setting projects that fulfill its mission and address financial accounting and reporting topics that are of the highest priority to its stakeholders.

The FASB requests feedback on improvements to financial accounting and reporting needed to:

1. Provide investors with better, more useful financial statement information that will directly influence their capital allocation decisions.
2. Reduce unnecessary cost and complexity.
3. Maintain and improve the FASB Accounting Standards Codification.

The ITC seeks broad stakeholder feedback on the following:

1. Whether the financial accounting and reporting topics described in the ITC are areas for which there is potential for significant improvement.
2. The priority and urgency of addressing each topic.
3. Which potential solution(s) the FASB should consider.
4. For any potential solution, the expected benefits and expected costs.
5. Whether there are other financial accounting and reporting topics beyond those described in the ITC that the FASB should consider adding to its agenda and the priority and urgency of addressing those topics. This would include accounting associated with emerging accounting issues, changes in business models, and potential areas of convergence.

The ITC does not include Board views. The content of this ITC is based on input received from stakeholders and is being provided to solicit broad input. The Board will consider the feedback received in response to the ITC when making decisions about potential changes to its agenda. Those decisions include which topics, if any, should be added to the FASB's agenda and order of priority. The ITC and the agenda consultation process are intended to

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complement the FASB's formal agenda request process. Stakeholders are encouraged to continue to submit agenda requests about needed improvements to generally accepted accounting principles (GAAP) as they arise.

Background

In June 2022, the FASB issued the 2021 Agenda Consultation Report, which summarized the robust feedback obtained during the 2021 agenda consultation project (the 2021 Agenda Consultation) and how that feedback has influenced the Board's technical and research agendas and standard-setting process. Since then, the Board has continued to make significant progress on the top priorities identified by stakeholders.

The top standard-setting priorities identified by stakeholders from the 2021 Agenda Consultation have been addressed as follows:

1. Accounting Standards Updates have been issued related to crypto assets, disaggregation of income statement expenses, and income tax disclosures.
2. Proposed Accounting Standards Updates have been issued related to derivatives scope refinements, accounting for environmental credit programs, accounting for government grants, and accounting for software costs. The Board will begin re-deliberations in 2025 on each of those proposals.
3. ITC documents have been issued to gather feedback on whether the Board should prioritize standard setting related to financial key performance indicators (KPIs) for business entities and intangible assets. The Board will consider feedback on these topics at future Board meetings.
4. The technical agenda includes a project to make targeted improvements to the statement of cash flows for financial institutions, which the Board continues to deliberate.
5. The research agenda includes projects related to (a) the statement of cash flows and (b) consolidation of business entities. The staff continues to research issues related to these topics for potential consideration to be added to the technical agenda and any additional feedback received as part of the agenda consultation process will be incorporated into those projects.

In addition to the Board's progress on its standard-setting projects, the following improvements to the standard-setting process were made in response to the 2021 Agenda Consultation:

1. The Emerging Issues Task Force (EITF) was reconstituted with new membership and operating procedures to enhance the effectiveness and efficiency of the interpretive process. Since its reconstitution, the EITF has recommended that the FASB add two projects to its technical agenda, which has resulted in the October 2024 issuance of a proposed Accounting Standards Update on determining the accounting acquirer when a variable interest entity (VIE) is acquired and an expected proposed Accounting Standards Update to be issued in early 2025 on the accounting for debt exchanges.
2. The Financial Accounting Foundation made an enhanced version of the online Codification available for all stakeholders to access at no charge.
3. The FASB launched a redesigned website that features streamlined navigation, a simpler menu structure, a more attractive and intuitive design, a more robust search algorithm, and more prominent placement of the most important information stakeholders are looking for.
4. Internal processes have been enhanced to improve consistency of transition requirements and provide more transparency to stakeholders on procedures performed to support the benefit-cost evaluation.

As a result of the progress on the 2021 Agenda Consultation priorities, the FASB Chair announced in May 2024 that the FASB would undertake a similar agenda consultation process to understand the priority areas that the Board should next address.

Agenda Prioritization Process

The Board's agenda consists of both a technical agenda and a research agenda.

Technical Agenda

A majority of the Board must approve any projects that are added to or removed from the technical agenda. Only projects on the technical agenda can result in standard setting. When considering whether to add a project to the technical agenda, the Board evaluates potential projects against the following three criteria to ensure consistent agenda prioritization decisions:

1. There is an identifiable and sufficiently pervasive need to improve GAAP—in other words, what improvement is needed? What is the case for change?
2. There are technically feasible solutions, and the expected benefits of those solutions are likely to justify the expected costs of change—what are the various alternative ways that an issue could be addressed? What are the expected benefits and expected costs of the solutions, and can the solutions be implemented?
3. The issue has an identifiable scope—can the FASB effectively identify the scope of the potential project? Can the issue be sufficiently described?

Decisions about whether a project meets those criteria are a matter of Board members' professional judgment that is informed by research and analysis performed by the FASB staff. The criteria help the Board to use its time and resources efficiently and effectively on the highest priority projects that the Board will be able to complete in a timely manner.

Research Agenda

The FASB chair adds projects to or removes projects from the research agenda and directs the research projects to (1) gather additional information and (2) explore potential standard-setting solutions.

Development of the ITC

To begin the current agenda consultation process, the FASB staff sought input from a cross-section of over 200 stakeholders, including investors, practitioners, preparers, and academics. This included outreach with numerous stakeholder groups and FASB advisory groups, including the Investor Advisory Committee, the Financial Accounting Standards Advisory Council, the Not-for-Profit Advisory Committee, the Private Company Council (PCC), and the Small Business Advisory Committee, to identify priority areas of improvement to financial accounting and reporting.

Overall, those stakeholders commended the Board on its significant progress on the priorities identified in the 2021 Agenda Consultation and expressed their appreciation that the Board listened to stakeholders and took timely action on the identified priorities.

Additionally, those stakeholders appreciated the Board's thorough and careful consideration of stakeholder feedback in recent standard-setting projects and encouraged the Board to continue to:

1. Stay cognizant of the pace of change, especially while setting effective dates for new guidance.
2. Develop illustrative examples to help apply GAAP in complex and/or industry-specific fact patterns.
3. Consider industry-specific matters.
4. Communicate how stakeholder feedback and expected benefits and expected costs factored into the Board's decisions.
5. Assess the effectiveness of disclosures for both new guidance and current guidance.

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Most of those stakeholders, including investors, said that there is not a case to make major changes to GAAP at this time. Therefore, many of the topics that were suggested for standard-setting efforts, and consequently described within the ITC, focus on targeted improvements to GAAP.

The discussions included within this ITC are based on input received from those stakeholders. When the ITC refers to feedback provided by stakeholders or certain stakeholder groups, such as investors, it is meant to indicate that the item was raised as part of this outreach, not that it was necessarily heard broadly across all stakeholders (or stakeholder groups).

Stakeholder input on the FASB's future standard-setting activities generally fell within one of the following areas:

1. Combination of entities (Chapter 1)
2. Financial instruments (Chapter 2)
3. Intangibles (Chapter 3)
4. Other assets and liabilities (Chapter 4)
5. Retirement and other employee benefits (Chapter 5)
6. Income and expenses (Chapter 6)
7. Presentation and disclosure of financial reporting information (Chapter 7)
8. Current research agenda projects (Chapter 8).

The remainder of this ITC describes topics for improvement that were suggested during the outreach described above. The FASB welcomes feedback on the topics in the ITC as well as other topics that are of the highest priority to stakeholders for the Board to consider.

Overall Questions for Respondents

Individuals and organizations are invited to comment on all matters in the ITC, particularly on the issues and questions that are specifically asked in the document. General questions about the FASB's technical agenda are included in the document, and questions on a specific area or topic are included in each chapter. The appendix contains a comprehensive list of the questions for respondents.

FASB stated that while it would be helpful to receive feedback on all the questions in the ITC, the FASB staff welcomes comments from those who are only interested in a specific topic or topics described in the ITC. Comments are most helpful if they are as specific as possible, identify and clearly explain the topic or question to which they relate, and are specific to financial accounting and reporting.

Staff Review and Commentary

Comment deadline is June 30, 2025

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
Proposed Accounting Standards Update—*Recognition of Intangibles*	May 30, 2025

The purpose of this ITC is to solicit stakeholder feedback on whether the Board should pursue standard setting on intangibles. The ITC uses the term intangibles to include both (1) intangibles recognized as assets in the financial statements and (2) intangibles and related costs not recognized as assets in the financial statements.

The ITC is focused on the initial recognition of intangibles. Specifically, the FASB would like to understand:

1. Whether there is a pervasive need to improve generally accepted accounting principles (GAAP) related to the accounting for and disclosure of intangibles (that is, is there a case for change)
2. What intangibles, or groups of intangibles, the FASB should consider addressing
4. What potential solution(s) the FASB should consider—including whether the potential solution or solutions are narrow for a specific intangible or could be applied broadly to a group of intangibles—and the expected benefits and expected costs of the potential solution(s)
3. Whether different accounting for intangibles should exist depending on how the asset is obtained (internally developed, acquired in a business combination, or acquired in an asset acquisition)
5. What information about intangibles an investor utilizes (or would utilize) for its analysis and how that information influences the investor's capital allocation decisions.

The FASB has frequently sought views on intangibles from a wide variety of stakeholders. In addition, feedback has been received as part of the Board's due process on various intangibles-related projects, including technical and research agenda projects on research and development (R&D), asset acquisitions, business combinations, software costs, film costs, disaggregation of income statement expenses, and the Board's Conceptual Framework. Feedback on intangibles also has been received through two agenda consultations. Invitation to Comment, Agenda Consultation, issued in 2016 (the 2016 Agenda Consultation), and FASB Invitation to Comment, Agenda Consultation, issued in 2021 (the 2021 Agenda Consultation).

Respondents to the 2021 Agenda Consultation stated that the Board should perform research to better understand the information needs of investors and other allocators of capital (herein referred to as "investors") related to intangibles, while also considering the costs and challenges associated with preparing that information. While many respondents, across all stakeholder types, acknowledged that there can be a significant difference between the book value and market capitalization of certain entities, respondents were mixed about whether narrowing that gap would provide investors with relevant information when making decisions about providing resources to entities.

That feedback has shaped the direction of the current Accounting for and Disclosure of Intangibles research project (the Intangibles Research Project), which is intended to explore ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and R&D.

The ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Responses to the questions in the ITC will help inform the Board as it considers whether to add a project to its technical agenda on intangibles.

Background

2021 Agenda Consultation Feedback

The 2021 Agenda Consultation asked stakeholders whether the Board should pursue a project on intangibles and, if so, what intangibles should be included within the scope of the project and whether it should be primarily focused on changes to recognition and measurement and/or disclosure. Respondents across all stakeholder types, including investors, practitioners, and preparers, identified intangibles as a top priority but there was not a general consensus on the scope and objective of a potential project.

Several respondents suggested prioritizing an intangibles project focused on recognition and measurement. Numerous respondents suggested that the Board align the accounting for internally developed R&D and in-process R&D (IPR&D) acquired through an asset acquisition and a business combination. For example, some suggested revising current guidance so that R&D would be accounted for consistently regardless of whether it was internally developed or acquired. In addition, some respondents suggested that the Board look at R&D as a first step in a recognition and measurement project on intangibles. As another suggestion, some respondents urged the Board to focus on developing a recognition and measurement framework that could be applied to all internally developed intangibles.

Other respondents noted that significantly changing the guidance for recognition and measurement of intangibles would be challenging and that it was not worthwhile for the Board to prioritize this type of project at that time. For example, several respondents said that the costs of recognizing more internally developed intangibles on the balance sheet would outweigh the benefits and that evaluating rules for capitalization, amortization, and impairment would be challenging and costly.

Some respondents suggested that the Board consider prioritizing disclosure improvements for intangibles. Those respondents encouraged the Board to perform investor outreach and focus on providing relevant disclosures to address that feedback. However, there were some respondents that did not support additional quantitative disclosures. Generally, those respondents said that additional intangibles disclosures would not provide relevant information that would result in a meaningful benefit to investors and that qualitative disclosures would likely result in entities providing boilerplate information.

While the Board added several intangibles-related projects to its technical agenda as a result of the 2021 Agenda Consultation, those projects ultimately addressed targeted improvements related to outdated guidance (software costs) or new and emerging types of intangibles (crypto assets and environmental credits).

Standard-Setting History on Intangibles

The FASB first addressed the accounting for intangibles in 1973 with the development and issuance of FASB Statement No. 2, Accounting for Research and Development Costs, which defined R&D and provided a simple rule to account for R&D costs—they are to be charged to expense as incurred.

Since then, the topic of intangibles, in various forms, has consistently been on either the FASB's technical agenda or research agenda. These projects have (1) resulted in recognition guidance on specific intangibles, such as crypto assets, software costs, and film costs, (2) resulted in initial recognition guidance on intangibles based on how they were obtained (FASB Statements No. 141, Business Combinations, No. 141 (revised 2007), Business Combinations, and No. 142, Goodwill and Other Intangible Assets), and (3) furthered the FASB's understanding of stakeholder views on the recognition and disclosure of intangibles. See Appendix A for a listing of certain intangibles-related documents that have been issued in the past by the FASB or the American Institute of Certified Public Accountants (AICPA).

These efforts have demonstrated that stakeholder views on intangibles continue to be diverse. This includes diverse views about (1) when an intangible should be recognized as an asset and (2) what information about intangibles is decision useful to investors. There are several reasons for that diversity, the wide breadth of the types of intangibles, uncertainty around intangibles' economic benefits, and whether information about intangibles is likely to affect investors' capital allocation decisions.

A question that the Board continues to contend with is at what point an asset should be recognized in the financial statements for an internally developed or acquired intangible item. Although the Board's current Conceptual Framework defines an asset, it also emphasizes that because the facts and circumstance that generate intangibles are so varied, whether an asset has been created often must be resolved at the standards level. (See paragraph E36

of Chapter 4, Elements of Financial Statements, of FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting, which is reproduced in Appendix B.)

Overall Questions for All Respondents

Individuals and organizations are invited to comment on all matters in the ITC. While it would be helpful to receive feedback on all the questions in this ITC, comments also are requested from those who are only interested in specific questions or specific intangibles. Comments are most helpful if they identify and clearly explain the issue or question to which they relate and are specific to financial accounting and reporting.

Staff Review and Commentary

Comment deadline is May 30, 2025

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
Proposed Accounting Standards Update— *Financial Key Performance Indicators for Business Entities*	April 30, 2025

This ITC is being issued as part of the FASB research project on financial key performance indicators (Financial KPIs) for business entities. Responses to the questions in this ITC will help inform the Board as it considers whether to add a project on Financial KPIs to its technical agenda and, if added, to determine the objective and scope of the project.

In previous outreach, including the 2021 ITC, Agenda Consultation, the FASB received feedback from stakeholders that a project on Financial KPIs should be considered. However, respondents expressed diverse views on the nature and extent of the perceived issues, whether the Board should add a project to its technical agenda, and, if a project is added, the objective of the project. While a potential project on Financial KPIs was often highlighted as a priority by investors, it was rarely cited as a priority by preparers.

The FASB staff is issuing this ITC to solicit additional feedback on potential standard setting for Financial KPIs, including the following:

1. Should Financial KPIs be standardized and, if so, which ones?
2. Should Financial KPIs be required or permitted to be disclosed in an entity's generally accepted accounting principles (GAAP) financial statements and, if so, when and for what types of entities?

Staff Review and Commentary

Comment deadline is April 30, 2025

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
Proposed Accounting Standards Update—*Codification Improvements*	April 22, 2025

The Board has a standing project to address suggestions received from stakeholders on the Accounting Standards Codification and to make other incremental improvements to GAAP. This evergreen project facilitates Codification updates for a broad range of Topics arising from technical corrections, unintended application of the Codification, clarifications, and other minor improvements. The resulting amendments are collectively referred to as Codification improvements.

The Board decided that the types of issues that it will consider through this project are improvements that are not expected to have a significant effect on current accounting practice or result in significant costs to most entities.

An explanation of why each amendment in this proposed Update is being made is provided in the "Amendments to the FASB Accounting Standards Codification" section. Therefore, there is no separate section for the Board's basis for conclusions in this proposed Update.

The amendments in this proposed Update would affect a wide variety of Topics in the Codification and would apply to all reporting entities within the scope of the affected accounting guidance.

Thirty-four issues are addressed in this proposed Update. FASB stated that respondents should review the entire document to assess what effect the proposed amendments would be expected to have.

The Board would specifically like to highlight Issues 1, 4, 6, 20, and 25 to ensure that stakeholders provide feedback on those issues.

Staff Review and Commentary

Comment deadline is April 22, 2025

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
Proposed Accounting Standards Update—*Environmental Credits and Environmental Credit Obligations (Topic 818)*	April 15, 2025

The Board is issuing this proposed Update to improve the financial accounting for and disclosure of environmental credits and environmental credit obligations. The proposed Update provides recognition, measurement, presentation, and disclosure requirements for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits.

Stakeholder feedback, including from respondents to the 2021 FASB ITC, Agenda Consultation, indicates that entities are increasingly subject to additional government mandates and regulatory compliance programs related to emissions, which often result in obligations that may be settled with environmental credits. Additionally, some entities that voluntarily commit to reducing their emissions by a future date (for example, voluntary "net zero" and "carbon neutral" initiatives) use environmental credits to partially offset their emissions.

Stakeholders emphasized that GAAP does not provide specific authoritative guidance on how to recognize and measure environmental credits or the related obligations that result from regulatory compliance programs. As a result, entities typically account for environmental credits and environmental credit obligations by analogy to Topic 330, Inventory, Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, and Topic 450, Contingencies, resulting in diversity in practice.

The following are examples of environmental credits and the associated regulatory compliance program that are subject to the amendments in this proposed Update (these examples are not all-inclusive):

1. Emissions allowances originating from domestic and global cap-and-trade programs.
2. Corporate Average Fuel Economy (CAFE) credits originating from U.S. CAFE Standards
3. Renewable identification numbers originating from the U.S. Renewable Fuel Standard
4. Renewable energy certificates originating from U.S. State Renewable Portfolio Standards.

Additionally, carbon offsets, which often are generated by projects represented to reduce or remove carbon dioxide from the atmosphere, are typically used by entities to meet voluntary initiatives to reduce net emissions and are subject to the amendments in this proposed Update.

The amendments in the proposed Update are expected to provide investors with additional decision-useful information by improving the (1) understandability of financial accounting and reporting information about environmental credits and environmental credit obligations associated with regulatory compliance programs and (2) comparability of that information by reducing diversity in practice.

The FASB's mission is to establish and improve financial accounting and reporting standards; therefore, the amendments in this proposed Update are intended to address only amounts reported in financial statements. As a result, measuring or tracking an entity's voluntary net zero emissions initiatives or the entity's actual greenhouse gas emissions are beyond the scope of the FASB's mission and are not addressed by the FASB or by the proposed amendments.

Staff Review and Commentary

Comment deadline is April 15, 2025

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
Proposed Accounting Standards Update—*Government Grants (Topic 832): Accounting for Government Grants by Business Entities*	March 31, 2025

The FASB is issuing this proposed Update to improve GAAP by establishing authoritative guidance on the accounting for government grants by business entities.

GAAP does not provide specific authoritative guidance about the recognition, measurement, and presentation of a grant received by a business entity from a government. In the absence of specific guidance, many business entities analogize to the guidance in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance, or, less commonly, the guidance in Subtopic 958-605, Not-For-Profit Entities—Revenue Recognition. When applying that guidance by analogy, business entities may not apply all that guidance. Stakeholders have observed that the lack of specific authoritative guidance on the accounting for

government grants has led to questions about the acceptability of certain accounting approaches and has resulted in diversity in practice.

In November 2021, the FASB issued disclosure guidance in Accounting Standards Update No. 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, to address requests from investors for increased transparency about government grants. Even with the disclosure requirements established in Update 2021-10, the lack of specific guidance about recognition, measurement, and presentation has continued to be highlighted by stakeholders as an area for potential improvement.

Stakeholder feedback, particularly from practitioners and preparers, including the respondents to the 2021 FASB Invitation to Comment, Agenda Consultation (2021 Agenda Consultation), and the 2022 Invitation to Comment, Accounting for Government Grants by Business Entities—Potential Incorporation of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, into Generally Accepted Accounting Principles (2022 GG ITC), expressed support for developing specific authoritative guidance for recognition, measurement, and presentation of government grants. Those stakeholders noted that having guidance in GAAP on the accounting for government grants would reduce diversity in practice and increase consistency among business entities.

The amendments in this proposed Update would apply to business entities (specifically, all entities except for not-for-profit entities and employee benefit plans) that receive a government grant, which would be defined as a transfer of a monetary or a tangible non-monetary asset, other than an exchange transaction, from a government. The proposed amendments would not apply to exchange transactions, income taxes, the benefit of below-market interest rate loans, and government guarantees.

The amendments in this proposed Update would establish guidance for a government grant including (1) a grant related to an asset and (2) a grant related to income. A grant related to an asset is a government grant in which the primary condition is for the business entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible non-monetary asset from a government. A grant related to income is a government grant other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).
The amendments in this proposed Update would require a consistent initial recognition threshold for all government grants. In accordance with the proposed amendments, a government grant would be initially recognized when it is probable that (1) a business entity will comply with the conditions attached to the grant and (2) the grant will be received.

The amendments in this proposed Update would require that, upon meeting the initial recognition threshold, a grant related to an asset be recognized in the balance sheet either as:

1. Deferred income (the deferred income approach)
2. A part of the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

A grant related to income and a grant related to an asset in which the deferred income approach is elected would be recognized in earnings on a systematic and rational basis over the periods in which a business entity recognizes as expenses the costs the grant is intended to compensate. When a business entity elects the cost accumulation approach for a grant related to an asset, the business entity would recognize the amount of the grant in determining the carrying amount of the asset.

The amendments in this proposed Update would require a business entity to present a grant related to income within earnings either (1) separately under a general heading such as other income or (2) deducted from the related expense. In addition, the amendments in this proposed Update would require consistent with current disclosure requirements, that a business entity provide disclosures about the nature of the government grant received, the accounting policies used to account for the grant, and significant terms and conditions of the grant, among other disclosure requirements.

Staff Review and Commentary

Comment deadline is March 31, 2025

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
Proposed Accounting Standards Update— *Interim Reporting (Topic 270): Narrow-Scope Improvements*	March 31, 2025

The Board is issuing the amendments in this proposed Update to improve the guidance in Topic 270, Interim Reporting, by improving the navigability of the required interim disclosures and clarifying when that guidance is applicable. The proposed amendments also provide additional guidance on what disclosures should be provided in interim reporting periods. The proposed amendments include adding to Topic 270 a principle that would require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity. The Board does not intend to change the fundamental nature of interim reporting or expand or reduce current interim disclosure requirements, which were determined by prior Boards when the disclosure requirements were initially issued. Rather, the objective of the proposed amendments is to provide clarity on the current interim reporting requirements.

The Board has received feedback from stakeholders that Topic 270 is challenging and complex to navigate. The complexity of this Topic is mainly a result of the development of the source literature, the initial codification of the historical content, and subsequent amendments to the Topic as new accounting guidance was issued over time. Accordingly, the Board sought to clarify the types of interim reporting that are subject to the requirements in Topic 270.

The Board previously considered amendments to interim reporting in Topic 270 as part of the Disclosure Framework project, which resulted in the issuance of proposed Accounting Standards Update, Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements, in 2021. Although respondents to that proposed Update supported the Board's efforts, they expressed concerns about the proposed amendments. When redeliberating the 2021 proposed Update, the Board decided that the project's objective is to improve the guidance in Topic 270 by clarifying when that guidance is applicable, thereby improving the navigability of the required interim disclosures. The Board also decided to provide additional guidance on what interim disclosures should be provided in interim reporting periods.

The amendments in this proposed Update would apply to all entities that provide interim financial statements and notes in accordance with GAAP.

The amendments in this proposed Update include guidance about what is meant by the phrase interim financial statements and notes in accordance with GAAP, including referencing U.S. SEC requirements for entities to which those requirements apply.

The amendments in this proposed Update would clarify interim disclosure requirements and the applicability of Topic 270.

The amendments in this proposed Update would result in a comprehensive list of interim disclosures that are required by GAAP. In developing the list of disclosures required by other Topics, the Board focused on identifying the interim disclosures that are currently required under GAAP. The objective of the proposed amendments is to

provide clarity about the current requirements, rather than evaluate whether to expand or reduce interim disclosure requirements.

The amendments in this proposed Update also include a disclosure principle that would require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity. The intent of the proposed disclosure principle, which is modeled after (and intended to be applied consistently with) a previous SEC disclosure requirement, is to help entities determine whether disclosures not specified in Topic 270 should be provided in interim reporting periods.

The amendments in this proposed Update also would clarify the applicability of Topic 270, the types of interim reporting, and the form and content of interim financial statements in accordance with GAAP. The Board expects that these clarifications would enhance consistency in interim reporting for all entities.

The Board considers the amendments in this proposed Update to be necessary to reflect the development of interim reporting over time.

The amendments in this proposed Update would be applied prospectively to interim financial statements and notes in accordance with GAAP issued for interim reporting periods after the effective date.

The Board will determine the effective date and whether early adoption should be permitted after it considers stakeholder feedback on the amendments in this proposed Update.

Staff Review and Commentary

Comment deadline is March 31, 2025

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2025Spring/Minutes and Summary/SAPWG/Att 1K-Review of GAAP Exposures.docx

Draft: 3/12/25

Blanks (E) Working Group
Virtual Meeting
March 6, 2025

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met March 6, 2025. The following Working Group members participated: Roy Eft, Chair (IN); Steve Drutz, Vice Chair (WA); David Phifer (AK); Kim Hudson (CA); Wayne Shepherd (CT); N. Kevin Brown (DC); Tom Hudson (DE); Shalice Rivers (FL); Daniel Mathis (IA); Jason Tippett (MI); Kelly Hopper and Danielle Smith (MO); Tadd Wegner (NE); Paul Lupo (NJ); Dale Bruggeman and Tracy Snow (OH); Diana Sherman (PA); Shawn Frederick (TX); Jake Garn (UT); Adrian Jaramillo (WI); Drema Goolsby and Rhonda Hartwell (WV).

1. Adopted its Nov. 6, 2024, and Dec. 3, 2024, Minutes

Eft stated that during its Nov. 6, 2024, meeting, the Working Group took the following action: 1) adopted its Aug. 7, 2024, minutes; 2) exposed eight proposals up for adoption; 3) adopted the editorial listing; and 4) received the Statutory Accounting Principles (E) Working Group memorandum regarding the reporting of debt securities issued by funds representing operating entities.

During its Dec. 3 e-vote, the Working Group adopted the editorial listing for Note 12A18—Defined Benefit Plans, deleting the instruction for the defined benefit plan disclosure addressed in the Oct. 30, 2023, Statutory Accounting Principles (E) Working Group memorandum to the Blanks (E) Working Group.

Drutz made a motion, seconded by Hudson, to adopt the Working Group's Nov. 6, 2024, (*see NAIC Proceedings – Fall 2024, Accounting Practices and Procedures (E) Task Force, Attachment Two*) and Dec. 3, 2024, e-vote (Attachment Two-A) minutes. The motion passed unanimously.

2. Adopted Items Previously Exposed

A. Agenda Item 2024-13BWG

Bruggeman stated that this blanks proposal reflects editorial items noted from the adoption of the bond reporting revisions. The intent was to show all editorial changes in a single bond proposal rather than in many editorial lists. The interested party comments were considered and shown with gray shading in the proposal. As the changes are all editorial or clarifications and do not reflect any changes in reporting, it was recommended that the Blanks (E) Working Group proceed with adoption consideration and not re-exposure.

Bruggeman made a motion, seconded by Drutz, to adopt the modifications to the proposal. The motion passed unanimously.

Bruggeman made a motion, seconded by Drutz, to adopt the modified proposal (Attachment Two-B). The motion passed unanimously.

B. Agenda Item 2024-14BWG

Bruggeman stated that this blanks proposal reflects a reporting line change to refer to the updated *Statement of Statutory Accounting Principles* (*SSAP) No. 26—Bond* guidance for "Bonds Issued by Funds Representing Operating Entities." This revised principle-based reporting concept for SSAP No. 26 classification was adopted by the Statutory Accounting Principles (E) Working Group via e-vote on Sept. 12, 2024, and is detailed in agenda item

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2024-01. There were no concerns with the industry's proposed modification, and further exposure is not necessary.

Bruggeman made a motion, seconded by Hudson, to adopt the modifications to the proposal. The motion passed unanimously.

Bruggeman made a motion, seconded by Hudson, to adopt the modified proposal (Attachment Two-C). The motion passed unanimously.

C. Agenda Item 2024-15BWG

Drutz stated that this proposal removes the Affordable Care Act (ACA) disclosure on the transitional reinsurance program and the risk corridors program from the Supplemental Health Care Exhibit (SHCE). The Statutory Accounting Principles (E) Working Group removed the ACA transitional reinsurance program and risk corridor program disclosures from Note 24E—Retrospectively Rated Contracts and Contracts Subject to Redetermination with proposal 2024-10BWG since these programs had expired with reference number 2024-13. This is a follow-up to be consistent and remove the disclosure from the SHCE. Staff confirmed with the representatives of the federal Center for Consumer Information and Insurance Oversite (CCIIO), the part of the federal Centers for Medicare & Medicaid Services (CMS) that utilizes the SHCE data, that they no longer use this disclosure from the SHCE. Interested parties had no comments.

Drutz made a motion, seconded by Shepherd, to adopt the proposal (Attachment Two-D). The motion passed unanimously.

D. Agenda Item 2024-16BWG

Bruggeman stated that this blanks proposal reflects a clean-up item from the previously adopted revisions that limit what should be reported as cash equivalents or short-term investments. It was identified that general interrogatory 13 captures information on mortgages and real estate included as short-term investments. As those items are no longer permitted to be reported as cash equivalents or short-term investments, this general interrogatory should be deleted. There were no interested party comments received.

Bruggman made a motion, seconded by Shepherd, to adopt the proposal (Attachment Two-E). The motion passed unanimously.

E. Agenda Item 2024-17BWG

Teresa Cooper (NAIC) stated that this proposal adds a line to the Market Conduct Annual Statement (MCAS) Premium Exhibit for reporting pet insurance to identify premiums that are reportable for MCAS purposes by lines of business.

Phifer made a motion, seconded by Shepherd, to adopt the proposal (Attachment Two-F). The motion passed unanimously.

F. Agenda Item 2024-18BWG

Drutz stated that this proposal adds a footnote to the SHCE Part 2 to help companies with the crosscheck between column 13 of the SHCE Part 2 compared to the Accident and Health Policy Experience Exhibit. There currently is a

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note in the instructions indicating that the crosscheck would not work for companies that report premium deficiency reserves. There are quite a few companies that have to provide an explanation for the crosscheck difference. With the addition of the footnote, staff can update the crosscheck in the system to check for premium deficiency reserves and pass the crosscheck, thereby preventing those companies from having to address that failure. There were no interested party comments.

Drutz made a motion, seconded by Hudson, to adopt the proposal (Attachment Two-G). The motion passed unanimously.

G. Agenda Item 2024-19BWG

Bruggman stated that this blanks proposal corresponds to Statutory Accounting Principles (E) Working Group agenda item 2023-28 and proposes to expand the Schedule BA and asset valuation reserve (AVR) reporting lines for the reporting of collateral loans. Consideration of interested parties' comments has been reflected in the revised proposal. This item is still pending adoption at the Statutory Accounting Principles (E) Working Group and is planned for discussion during the upcoming Spring National Meeting. Re-exposure of this modified blanks proposal will allow for the Statutory Accounting Principles (E) Working Group adoption consideration to occur prior to adopting the blanks proposal. As this item will result in new reporting lines, the Jan. 1, 2026, effective date is supported to allow for consistent reporting for both quarterly and annual financial statements.

Bruggeman made a motion, seconded by Garn, to adopt the modifications to the proposal. The motion passed unanimously.

Bruggeman made a motion, seconded by Drutz, to adopt the modified proposal (Attachment Two-H). The motion passed unanimously.

H. Agenda Item 2024-20BWG

Jenn Webb (National Organization of Life and Health Insurance Guaranty Associations—NOLHGA) stated that she is representing both NOLHGA and the National Conference of Insurance Guaranty Funds (NCIGF). The purpose of this proposal is to add an assessment contact on the electronic Jurat page to ensure that regulators, NOLHGA, the NCIGF, and each state guaranty association have the most up-to-date contact information to send assessment invoices to the companies when needed. Many companies have staff responsible for processing the assessment invoices but are rotating positions or have more regular turnover. This can result in delayed receipt of invoices and, consequently, delayed receipt of assessment payments that the companies are required to pay. Often members of guaranty associations must reach out to their respective state insurance departments to help track down who to direct the invoice to. The hope is that adding a contact to the electronic Jurat page will alleviate this issue.

During the comment period, it was suggested that a note be added to indicate that this requirement does not apply to fraternal and title companies unless otherwise required by state law. As the proposal sponsor, Webb stated she agrees with the modification.

Drutz made a motion, seconded by Hudson, to adopt the modifications to the proposal. The motion passed unanimously.

Drutz made a motion, seconded by Phifer, to adopt the modified proposal (Attachment Two-I). The motion passed unanimously.

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I. Agenda Item 2024-21BWG

Bruggeman stated that this blanks proposal corresponds to the Statutory Accounting Principles (E) Working Group adopted agenda item 2024-16 and clarifies what shall be reported as a "sold" and "acquired" security for reporting on Schedule D, Part 3 and Part 4. This item originated because it was noted that reporting entities may be selling securities to a special purpose vehicle (SPV) and then reacquiring the security with a derivative component/wrapper but not reporting the sale/reacquisition. The re-acquired security is fundamentally different from the sold security, as it has a different issuer, coupon, and potentially different credit assessment. Under *SSAP No. 103– Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, these securities are not substantially similar. This blanks proposal clarifies that if these transactions occur, the reporting entity shall report the sold security as disposition on Schedule D, Part 4, and report the new security acquired as an acquisition on Schedule D, Part 3. No interested party comments were received.

Bruggman made a motion, seconded by Shepherd, to adopt the proposal (Attachment Two-J). The motion passed unanimously.

J. Agenda Item 2024-22BWG

Bruggeman stated that this blanks proposal corresponds to the Statutory Accounting Principles (E) Working Group adopted agenda item 2024-28 and clarifies what should be included in the surplus notes and capital notes reporting lines on Schedule BA. No interested party comments were received.

Bruggman made a motion, seconded by Shepherd, to adopt the proposal (Attachment Two-K). The motion passed unanimously.

3. Exposed New Items

A. Agenda Item 2025-01BWG

Bruggeman stated that this proposal recommends revisions to the blanks that correspond with the Statutory Accounting Principles (E) Working Group agenda item 2023-26, which adopted certain disclosures from ASU 2023-06. The first of the two disclosures adopted by 2023-26 require companies to outline their accounting policy on how cash flows and related gains and losses from derivative instruments are presented in the statement of cash flows. The second disclosure requires that companies provide a narrative detailing the terms and conditions of unused short-term and long-term commitments and lines of credit. Companies must also provide a schedule detailing the total amount of unused commitments and lines of credit, disaggregated by short-term and long-term.

Hearing no objection, Eft stated that the proposal would be considered exposed for a 54-day public comment period ending April 29.

B. Agenda Item 2025-02BWG

Bruggeman stated that this proposal corresponds to Statutory Accounting Principles (E) Working Group agenda item number 2024-11, which removed the disclosure detailed in *SSAP No. 101—Income Taxes*, paragraph 23.b., as this disclosure is no longer relevant due to changes in federal tax law.

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Hearing no objection, Eft stated that the proposal would be considered exposed for a 54-day public comment period ending April 29.

C. Agenda Item 2025-03BWG

Frederick stated that this proposal modifies the life insurance (state page) to include accident and health data for direct premiums earned and direct losses incurred. The life state page was significantly revised, effective with the annual 2023 filing with the adoption of proposal 2022-19BWG. When that proposal was drafted, some of the accident and health data were not included. Regulators have requested that certain accident and health data, including the direct premiums earned and direct losses incurred be added in.

Hearing no objection, Eft stated that the proposal would be considered exposed for a 54-day public comment period ending April 29.

D. Agenda Item 2025-04BWG

Bruggeman stated that this blanks proposal adds disclosures for the 2025 annual statement on a new program in Medicare Part D called the Medicare Prescription Payment Plan. The Statutory Accounting Principles (E) Working Group has exposed accounting guidance on this program that is planned for consideration of adoption at the Spring National Meeting in *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plan.* The Statutory Accounting Principles (E) Working Group has a separate agenda item that is being simultaneously exposed with the disclosures. The disclosures are on prescription payment plan recoverables, aging of the recoverables, non-admitted amounts, and amounts that are written off as uncollectible.

Hearing no objection, Eft stated that the proposal would be considered exposed for a 54-day public comment period ending April 29.

E. Agenda Item 2025-05BWG

Bruggeman stated that this blanks proposal corresponds to the Statutory Accounting Principles (E) Working Group item number 2024-07, which proposes to capture more information on the assets that support funds withheld and modified co-insurance (modco) arrangements. This current version is only for Schedule S on the life blank, and the disclosure is not proposed to be included on the health, property/casualty (P/C), or title blanks. Statutory Accounting Principles (E) Working Group agenda item 2024-20 is planned for re-exposure at the Spring National Meeting.

Hearing no objection, Eft stated that the proposal would be considered exposed for a 54-day public comment period ending April 29.

F. Agenda Item 2025-06BWG

Bruggeman stated that this blanks proposal corresponds to Statutory Accounting Principles (E) Working Group agenda item 2024-20, which proposes to capture explicit information on assets held under modco or funds withheld (FWH) agreements within the restricted asset disclosure. Additionally, the disclosure is expanded to capture differences in amounts reported from the restricted asset disclosure and what is captured in the general interrogatory, which flows through to a risk-based capital (RBC) impact.

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Hearing no objection, Eft stated that the proposal would be considered exposed for a 54-day public comment period ending April 29.

4. Received the Memorandums from the Statutory Accounting Principles (E) Working Group

Eft stated that two memorandums were previously sent to the Blanks (E) Working Group from the Statutory Accounting Principles (E) Working Group, one regarding guidance on inactive Lloyd's syndicates and the other regarding the year-end 2024 impacts on the annual statement notes and instructions. Since these had impacts on the annual 2024 filing, they have already been posted to the Blanks (E) Working Group webpage to make the information available to the industry in a timely manner. This agenda item is a procedural vote to get the memorandums recorded in the NAIC proceedings.

Snow made a motion, seconded by Hudson, to receive the Statutory Accounting Principles (E) Working Group memorandums (Attachment Two-L). The motion passed unanimously.

5. Adopted the Editorial Listing

Snow made a motion, seconded by Drutz, to adopt the editorial listing (Attachment Two-M). The motion passed unanimously.

Having no further business, the Blanks (E) Working Group adjourned.

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Draft: 12/4/24

Blanks (E) Working Group
E-Vote
December 3, 2024

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Dec. 3, 2024. The following Working Group members participated: Debbie Doggett, Chair (MO); Steve Drutz, Vice Chair (WA); Kevin Richard (AK); Kim Hudson (CA); Wayne Shepherd (CT); N. Kevin Brown (DC); Nicole Brittingham (DE); Nicole Crockett and Carly Wagoner (FL); Daniel Mathis (IA); Roy Eft (IN); Kristin Hynes and Jason Trippett (MI); Tadd Wegner (NE); Paul Lupo and Amal Mechaiel (NJ); Tracy Snow (OH); Diane Carter (OK); Ryan Keeling (OR); Diane Sherman (PA); Shawn Frederick (TX); Jake Garn (UT); Adrian Jaramillo (WI); and Mary Jo Lewis (WV).

1. Adopted Proposal 2022-13BWG

The Working Group conducted an e-vote to consider adoption of its editorial listing for Note 12A18, deleting the instruction for the defined benefit plan disclosure addressed in the Oct. 30, 2023, Statutory Accounting Principles (E) Working Group memorandum to the Blanks (E) Working Group (*see NAIC Proceedings – Fall 2023, Accounting Practices and Procedures (E) Task Force, Attachment Two-E*).

Garn made a motion, seconded by Hudson, to adopt the editorial listing (Attachment Two-A1). The motion passed with no objection.

Having no further business, the Blanks (E) Working Group adjourned.

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Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented in December 2024)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2024	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Update Note 12(A)18 for the change that was in the 2023 memo from the SAPWG. This update was missed when preparing the 2024 annual instructions. Instruction: A. Defined Benefit Plan ~~(18)Reporting entities electing to apply the transition guidance set forth in *SSAP No. 102—Pensions* and *SSAP No. 92—Postretirement Benefits Other Than Pensions* must disclose the full transition surplus impact calculated from applying guidance in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial "transition liability" calculated under guidance and the annual amortization amount of the "unrecognized items" into net periodic benefit cost. This disclosure shall include a schedule of the entity's anticipated recognition of the remaining surplus impact over the transition period.~~ ~~See *SSAP No. 102—Pensions* and *SSAP No. 92—Postretirement Benefits Other Than Pensions* for details of the transition guidance.~~ Illustration: A. Defined Benefit Plan ~~(18) See implementation guide for *SSAP No. 102—Pensions* for examples of disclosure.~~	H, L/F, P/C, T	Annual

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2a1-editorial changes 12-2024.pdf

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 09/26/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2024-13BWG MOD
TELEPHONE:	Year 2025
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Chair SAPWG	No Impact [X]
AFFILIATION: Ohio Department of Insurance	Modifies Required Disclosure [ ]
ADDRESS: 50W. Town St., 3rd Fl., Ste. 300	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
Columbus, OH 43215	***If Yes, complete question below***
	DISPOSITION
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[X] Received For Public Comment
	[ ] Adopted Date
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[x] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the annual investment schedules for editorial items to the bond project. (Investment Sch. General Instructions, Sch. D Verification, Sch. D Part 1A, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 1 & 2)

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to show annual editorials for the bond project in one proposal instead of the editorial lists over multiple Blanks Working Group calls.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

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Listing of Items to be Updated in the Annual Investment Schedule Instructions/Blanks:

1. Investment Schedule General Instructions:
   - Add "Restricted Asset Code" label.
   - Add clarifying instructions for ABS – Non-Mortgage Backed (MBS) (SBA and SBIC) to Agency CMBS
   - Fully Guaranteed (Exempt from RBC) and Agency CMBS – Not/Partially Guaranteed (Not Exempt from RBC).
   - Update the description for Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans

2. Schedule D, Verification Between Years
   - Update column references in instructions

3. Schedule BA, Part 1, 2 & 3:
   - Column 1 CUSIP - Update CUSIP Global Services reference

4. Schedule D, Part 1, Section 1:
   - Column 1 CUSIP, Column 33 Issuer, & Column 34 Issue - Update CUSIP Global Services reference
   - Column 24 Agency, Sovereign Jurisdiction or State Abbreviation Update instructions to be consistent with the changes adopted by the VOSTF #2024-002.01.
   - Column 28 Call Date – remove "MW" code from instructions because only a date can be reported in this column. Add a new column called "Call Date – Make Whole Call Provision" and renumber remaining columns.

5. Schedule D, Part 1, Section 2:
   - Column 1 CUSIP, Column 35 Issuer, & Column 36 Issue – Update CUSIP Global Services reference
   - Column 21 Origination Balloon Payment % - clarify what ABS categories should report in this column.
   - Column 29 Current Overcollateralization Percentage – slightly change wording for instructions.
   - Column 31 Origination Overcollateralization Percentage – clarify what ABS categories should report in this column.
   - Column 32 Expected Payoff Date at Acquisition – clarify that the information reported should be when the company acquires the security.

6. Schedule D, Part 2, Section 1:
   - Column 1 CUSIP, Column 25 Issuer, & Column 26 Issue – Update CUSIP Global Services reference
   - Update references for Column 19 - NAIC Designation to match Schedule D, Part 1
   - Update BACV column reference in the Footnote

7. Schedule D, Part 2, Section 2:
   - Column 1 CUSIP, Column 23 Issuer, & Column 24 Issue – Update CUSIP Global Services reference
   - Update references for Column 17 - NAIC Designation to match Schedule D, Part 1

8. Schedule D, Part 3:
   - Add Subtotal lines 0489999999, 0499999999, 1889999999, and 1899999999
   - Column 1 CUSIP, Column 12 Issuer, & Column 13 Issue – Update CUSIP Global Services reference

9. Schedule D, Part 4:
   - Add Subtotal lines 0489999999, 0499999999, 1889999999, and 1899999999
   - Column 1 CUSIP, Column 24 Issuer, & Column 25 Issue – Update CUSIP Global Services reference
   - Column 20 Stated Contractual Maturity Date – add clarifying language on when this field should be left blank.

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10. Schedule D, Part 5:
    - Add Subtotal lines 0489999999, 0499999999, 1889999999, and 1899999999
    - Column 1 CUSIP, Column 24 Issuer, & Column 25 Issue – Update CUSIP Global Services reference

11. Schedule D, Part 6, Section 1:
    - Column 1 CUSIP – Update CUSIP Global Services reference

12. Schedule DA, Part 1:
    - Remove SVO Bond ETF lines and references in instructions because they shouldn't be reported on this schedule.
    - Add instructions for Column 13 Due and Accrued
    - Add instructions for Column 19 Paid for Accrued
    - Update Column 22 instructions for line references
    - Updated Column reference in the Footnote

13. Schedule DL, Part 1 & 2:
    - Add subtotal lines for ICO Unaffiliated (0489999999) and Affiliated (0499999999) and ABS Unaffiliated (1889999999) and Affiliated (1899999999).
    - Update Header name for ABS lines to Schedule D, Part 1, Section 2.
    - Column 1 CUSIP - Update line references for the CUSIP column and update CUSIP Global Services reference.
    - Column 5 Fair Value and Column 6 BACV - Update line references for Schedule D, Part 2, Section 1
    - Part 2 - Column 10 add updated instructions that were made to Part 1 in proposal 2023-06BWG but missed in Part 2.

14. Schedule E, Part 2:
    - Remove SVO Bond ETF lines and references in instructions because they shouldn't be reported on this schedule.
    - Update Subtotal lines for Total Cash Equivalents for Unaffiliated and Affiliated.
    - Add back the % code instructions for the Restricted Asset Code column.

15. Schedule E, Part 2 VBY
    - Remove Footnote to disclose joint ventures and transportation equipment because Sch BA investments should not be reported on E, Part 2

16. Schedule D, Part 1A:
    - Update beginning instructions for ABS securities
    - Columns 9 and 10 on the Blank have been XXX'd out for year-end 2025 and will be opened back up for year-end 2026. A note has also been added to the instructions for prior year columns
    - Section 51 rows referenced section 50 and has been updated to reference section 51.
    - Sections 53 and 54 need to reference section 52.
    - Column 8 header needs to reference section 52.

17. Supplemental Investment Risk Interrogatories:
    - Update line 3 – Reference to Schedule D, Part 1A line should be Line 52

18. Combined Annual Statement for Affiliated Property/Casualty Insurers:
    - Remove Sections 1 & 2 from the reference to Schedule D, Part 1A
    - Update line reference for Schedule D, Part 1 issuer credit obligations and asset-backed securities.

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19. General Interrogatories:
    - Update line 31 – old line 31.4 should be 31.5

20. 5-Year Historical:
    - Update the Affiliated Line references to Summary By Country
21. Summary Investment Schedule:
    - Update the line references in Columns 2 and 6 headers on the Blank

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

Restricted Asset Code: For the columns that disclose information regarding investments that are not under the exclusive control of the reporting entity, and also including assets loaned to others, the following codes should be used:

LS	–	Loaned or leased to others
RA	–	Subject to repurchase agreement
RR	–	Subject to reverse repurchase agreement
DR	–	Subject to dollar repurchase agreement
DRR	–	Subject to dollar reverse repurchase agreement
C	–	Pledged as collateral – excluding collateral pledged to FHLB
CF	–	Pledged as collateral to FHLB (including assets backing funding agreements)
DB	–	Pledged under an option agreement
DBP	–	Pledged under an option agreement involving "asset transfers with put options"
R	–	Letter stock or otherwise restricted as to sale – excluding FHLB capital stock
		(Note: Private placements are not to be included unless specific restrictions as to sale are included as part of the security agreement.)
RF	–	FHLB capital stock
SD	–	Pledged on deposit with state or other regulatory body
M	–	Not under the exclusive control of the reporting entity for multiple reasons
SS	–	Short sale of a security
O	–	Other

Detail Eliminated To Conserve Space

Asset-Backed Securities – Investments that qualify for Schedule D, Part 1, Section 2 pursuant to SSAP No. 43R:

Financial Asset-Backed Securities - Self-Liquidating – A self-liquidating security is a design where the terms of the underlying collateral has contractual principal (and interest, if applicable) that results with a conversion into cash over a period of time (e.g., receivables or other such assets). (For example, a mortgage loan backing a mortgage-backed security, where the loan balance is reduced as payments are made and is ultimately fully paid off by the borrower, or a collateralized loan obligation (CLO) backed by bank loans that is reduced as the loan is paid off.) A financial asset is defined within *SSAP No. 103R – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* 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 the bond definition and reporting on Schedule D, Part 1, 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.

Agency Residential Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC):

Include 'agency' residential mortgage-backed securities where the mortgages or bonds are guaranteed (i.e., they are backed by the full faith and credit of the U.S. Government) as to principal and interest by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA). Also include loans guaranteed by the U.S. Department of Veteran Affairs or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Government Sponsored Mortgage Referenced Securities shall not be captured within this category.

Agency Commercial Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC):

Include 'agency' commercial mortgage-backed securities where the mortgages or bonds are guaranteed (i.e., they are backed by the full faith and credit of the U.S. Government) as to principal and interest by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA). Also include loans guaranteed by the U.S. Department of Veteran Affairs or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Government Sponsored Mortgage Referenced Securities shall not be captured within this category. This category shall also include ABS securities that are fully and unconditionally guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. government that do not qualify for reporting as RMBS. Only fully and unconditionally guaranteed or insured structures shall be captured in this reporting line. Please refer to the Purpose and Procedures Manual of the NAIC Investment Analysis Office for determination of fully guaranteed structures.

Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC):

Include residential mortgage-backed securities issued by an agency that is not or partially guaranteed (i.e., they are not backed by the full faith and credit of the U.S. Government) as to principal and interest by federal or federally sponsored agencies such as Federal National Mortgage Association (FNMA) or Federal home Loan Mortgage Corporation (FHLMC). This category shall include mortgage-referenced securities issued by a government-sponsored enterprise (e.g., FNMA or FHLMC) in the form of a credit-risk-transfer in which the security is tied to a pool of residential mortgages. These items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, the holder may not receive a return of their full principal as repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages.

Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC):

Include commercial mortgage-backed securities issued by an agency that is not or partially guaranteed (i.e., they are not backed by the full faith and credit of the U.S. Government) as to principal and interest by federal or federally sponsored agencies such as Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). This category shall include mortgage-referenced securities issued by a government-sponsored enterprise (e.g., FNMA or FHLMC) in the form of a credit-risk-transfer in which the security is tied to a pool of commercial mortgages. These items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, the holder may not receive a return of their full principal as repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. This category shall also include ABS securities that are agency-issued and not fully and unconditionally guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. government (excluding RMBS).

Detail Eliminated To Conserve Space

Financial Asset-Backed Securities – Not Self-Liquidating – Include all financial asset-backed securities where the structure does not represent a design where the terms of the underlying collateral has contractual principal (and interest, if applicable) that results with a conversion into cash over a period of time (e.g., receivables or other such assets)

SCHEDULE D – VERIFICATION BETWEEN YEARS

BONDS AND STOCKS

The categories of bonds and stocks to be reported are: issuer credit obligations; asset-backed securities; preferred stocks; and common stocks. A grand total of all activity is also required.

Detail Eliminated To Conserve Space

Line 3 – Accrual of Discount

Report the total amount of discount accrued for the year, including the amount on bonds and stocks still owned as of the reporting date and reported on Schedule D, Part 1, Section 1, Column 10, Schedule D, Part 1, Section 2, Column 10 and Schedule D, Part 2, Section 1, Column ~~16~~15, and the amount on bonds and stocks disposed in the current year and reported on Schedule D, Part 4, Column 11.

Line 4 – Unrealized Valuation Increase/(Decrease)

In Column 1, report the total unrealized valuation increase/(decrease) for the year.

Column 2 should equal Schedule D, Part 1, Section 1, Column 9 plus Schedule D, Part 4, Column 10, Line 0509999999

Column 3 should equal Schedule D, Part 1, Section 2, Column 9 plus Schedule D, Part 4, Column 10, Line 1909999999

Column 4 should equal Schedule D, Part 2, Section 1, Column ~~15~~ 14 plus Schedule D, Part 4, Column 10, Line 4509999999

Column 5 should equal Schedule D, Part 2, Section 2, Column ~~13~~ 12 plus Schedule D, Part 4, Column 10, Line 5989999999

Detail Eliminated To Conserve Space

Line 7 – Amortization of Premium

Report the total amount of premium amortized for the year, including the amount on bonds and stocks still owned as of the reporting date and reported on Schedule D, Part 1, Section 1 Column 10, Schedule D, Part 1, Section 2, Column 10 and Schedule D, Part 2, Section 1, Column ~~16~~15, and the amount on bonds and stocks disposed in the current year and reported on Schedule D, Part 4, Column 11.

Line 8 – Total Foreign Exchange Change in Book/Adjusted Carrying Value

In Column 1, report the unrealized foreign exchange gain or (loss) for the year.

Column 2 should equal Schedule D, Part 1, Section 1, Column 12 plus Schedule D, Part 4, Column 14, Line 0509999999

Column 3 should equal Schedule D, Part 1, Section 2, Column 12 plus Schedule D, Part 4, Column 14, Line 1909999999

Column 4 should equal Schedule D, Part 2, Section 1, Column ~~19~~ 18 plus Schedule D, Part 4, Column 14, Line 4509999999

Column 5 should equal Schedule D, Part 2, Section 2, Column ~~16~~ 15 plus Schedule D, Part 4, Column 14, Line 5989999999

Line 9 – Current Year's Other-Than-Temporary Impairment Recognized

In Column 1, report the other-than-temporary impairments for the year.

Column 2 should equal Schedule D, Part 1, Section 1, Column 11 plus Schedule D, Part 4, Column 12, Line 0509999999

Column 3 should equal Schedule D, Part 1, Section 2, Column 11 plus Schedule D, Part 4, Column 12, Line 1909999999

Column 4 should equal Schedule D, Part 2, Section 1, Column ~~17~~ 16 plus Schedule D, Part 4, Column 12, Line 4509999999

Column 5 should equal Schedule D, Part 2, Section 2, Column ~~14~~ 13 plus Schedule D, Part 4, Column 12, Line 5989999999

Line 10 – Total Investment Income Recognized as a Result of Prepayment Penalties and/or Acceleration Fees

Report only the total investment income recognized, using the information recorded in Schedule D, Part 4, Column ~~20~~19, for bonds and stocks that were sold, disposed or otherwise redeemed during the year, as a result of a prepayment penalty and/or acceleration fee. Line 10 should equal Note 5, Line 5Q(2).

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SCHEDULE BA – PART 1

OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR

Refer to *SSAP No. 23—Foreign Currency Transactions and Translations* for accounting guidance.

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

Detail Eliminated To Conserve Space

SCHEDULE BA – PART 2

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND ADDITIONS MADE DURING THE YEAR

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

Detail Eliminated To Conserve Space

SCHEDULE BA – PART 3

OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR

This schedule should reflect not only disposals of an entire "other invested asset" but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

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SCHEDULE D – PART 1- SECTION 1

LONG-TERM BONDS – ISSUER CREDIT OBLIGATIONS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 35.

Detail Eliminated To Conserve Space

Column 33 – Issuer

Issuer Definition:

> The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Column 34 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided, but additional information should be provided as appropriate for the security.

> 6% Senior 2018
> 7% Subordinated Debenture 03/15/2022
> 3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

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Detail Eliminated To Conserve Space

Column 24 – Agency, Sovereign Jurisdiction or State Abbreviation

Applies to:

U.S. Government Obligations (Exempt from RBC) 0019999999
Other U.S. Government Obligations (Not Exempt from RBC) 0029999999
Non-U.S. Sovereign Jurisdiction Securities 0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed) 0049999999
Municipal Bonds – Special Revenue 0059999999

For ~~items captured as U.S. government or Other U.S. government, report "US" for treasury issued items and for non-treasury items~~U.S. Government Obligations or Other U.S. Government Obligations, report the abbreviation for the agency issuer captured within these categories. (Agency abbreviations are detailed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in the listing of agencies approved for these categories.)

For Non-U.S. Sovereign Jurisdiction Securities, report the country abbreviation detailed in the Annual Statement Instructions Appendix.

For ~~municipal bonds, include~~Municipal Bonds – General Obligation and Municipal Bonds – Special Revenue report the abbreviation for the state where the security is issued (e.g., "MO" for Missouri). For federal issuances, report the abbreviation for the agency issuer.

Detail Eliminated To Conserve Space

Column 28 – Call Date

Report the next call date. If there is no call date, leave blank.

~~If the item is subject to a make whole call provision and it is not known that the issuer is expected to invoke the provision enter "MW". If information is known that the issuer expects to invoke the make whole provision, then the expected call date of the make whole call provision shall be reported.~~

Column 29 – Call Date – Make Whole Call Provision

If the item is subject to a make whole call provision and it is not known that the issuer is expected to invoke the provision enter "MW". If information is known that the issuer expects to invoke the make whole provision, then the expected call date of the make whole call provision shall be reported in Column 28 – Call Date.

Leave blank if no make whole call provision or if the information is known that the issuer expects to invoke the make whole provision.

Column ~~29~~30 – Call Price – *Detail Eliminated to Conserve Space*
Column ~~30~~31 – Effective Date of Maturity – *Detail Eliminated to Conserve Space*
Column ~~31~~32 – Aggregate Deferred Interest – *Detail Eliminated to Conserve Space*
Column ~~32~~33 – PIK Interest – *Detail Eliminated to Conserve Space*
Column ~~33~~34 – Issuer – *Detail Eliminated to Conserve Space*
Column ~~34~~35 – Issue – *Detail Eliminated to Conserve Space*
Column ~~35~~36 – ISIN Identification – *Detail Eliminated to Conserve Space*
Column ~~36~~37 – Capital Structure Code – *Detail Eliminated to Conserve Space*

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SCHEDULE D – PART 1 – SECTION 2

ASSET-BACKED SECURITIES OWNED DECEMBER 31 OF CURRENT YEAR

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 37.

Detail Eliminated To Conserve Space

Column 21 – Origination Balloon Payment %

Use only for asset-backed securities reported in the following categories:

- Financial Asset-Backed Securities – Not Self-Liquidating
- Non-Financial Asset-Backed Securities – Practical Expedient
- Non-Financial Asset-Backed Securities – Full Analysis

Include the percentage of balloon payment due at maturity based on the original outstanding principal amount. For example, if the original security had principal repayment of $100 and $80 is scheduled to be paid at maturity, the balloon payment percentage at origination is 80%. The balloon percentage shall not be adjusted subsequent to origination regardless of principal reduction or payments in advance of maturity that reduce the outstanding balloon. If there is no balloon payment, then update with 0%.

Detail Eliminated To Conserve Space

Column 29 – Current Overcollateralization Percentage

Use only for asset-backed securities reported in the following categories:

- Financial Asset-Backed Securities – Not Self-Liquidating
- Non-Financial Asset-Backed Securities – Full Analysis

Report the overcollateralization ratio that reflects the value of the assets backing the debt issuance in comparison to the tranche held and all tranches senior as of the reporting date.

The ratio shall reflect the total unimpaired assets backing the debt issuance over the specific tranche held and all the tranches senior to the held tranche. For example, if the assets / expected cash flows supporting the debt issuance has declined to $88, and there is still $75 in issued senior debt and $15 in issued mezzanine debt, a reporting entity holding senior tranche would report 117% (88/75) and a reporting entity holding the mezzanine debt shall report 98% (88/90).

The ~~original~~ current overcollateralization ratio shall be based on supporting investment documentation and is updated using the most recent information available.

Column 30 – Current Expected Payoff Date

Report the current expected pay-off date resulting from estimated cash flows and prepayment assumptions.

Column 31 – Origination Overcollateralization Percentage

Use only for asset-backed securities reported in the following categories:

- Financial Asset-Backed Securities – Not Self-Liquidating
- Non-Financial Asset-Backed Securities – Full Analysis

Report the overcollateralization ratio that reflects the value of the assets backing the debt issuance in comparison to the tranche held and all tranches senior at the time of origination.

The ratio shall reflect the total unimpaired assets backing the debt issuance over the specific tranche held and all the tranches senior to the held tranche. For example, with $100 in assets backing the debt issuance and $75 in issued senior debt, $15 in issued mezzanine debt, and $10 in residual assets, a reporting entity holding senior tranche would report 133% (100/75) and a reporting entity holding the mezzanine debt shall report 111% (100/90).

The original overcollateralization ratio shall be based on supporting investment documentation.

Column 32 – ~~Origination~~ Expected Payoff Date at Acquisition

Report the expected pay-off date (i.e., anticipated repayment date) at the time of original acquisition. (This field should remain unchanged for as long as the security is held. This field should reflect the earliest held lot.)

Detail Eliminated To Conserve Space

Column 35 – Issuer

Issuer Definition:

> The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

Column 36 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided, but additional information should be provided as appropriate for the security.

6% Senior 2018
7% Subordinated Debenture 03/15/2022
3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

SCHEDULE D – PART 2 – SECTION 1

PREFERRED STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 27.

Detail Eliminated To Conserve Space

Column 19 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol for each security. The list of valid Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (*www.naic.org/svo.htm*).

Exchange Traded Funds should be reported as perpetual securities.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- ~~NAIC Designation Column 20A~~
- ~~NAIC Designation Modifier Column 20B~~
- ~~SVO Administrative Symbol Column 20C~~

Detail Eliminated To Conserve Space

Column 25 – Issuer

Issuer Definition:

> The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions

The reporting entity is encouraged to use the following sources:

-

- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

Column 26 – Issue

Issue information provides detailed data as to the type of security being reported.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

NAIC Designation Category Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount reported in Column ~~7~~6.

The sum of the amounts reported for each NAIC Designation Category in the footnote should equal the sum of Lines 4019999999 and 4029999999.

SCHEDULE D – PART 2 – SECTION 2

COMMON STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 24.

Detail Eliminated To Conserve Space

Column 23 – Issuer

Issuer Definition:

> The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

Column 17 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

For securities reported on Line 5319999999 (Mutual Funds), Line 5519999999 (Unit Investment Trusts) and Line 5719999999 (Closed-End Funds), provide the appropriate NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol combination as assigned by the Securities Valuation Office and published in AVS+ per the instructions in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* on the Compilation and Publication of the SVO List of Investment Securities. A list of these funds can be found on the Securities Valuation Office Web page (*www.naic.org/svo.htm*).

NAIC Designation and NAIC Designation Modifier should not be provided for securities reported on these lines categories stated above that have not been assigned one by the Securities Valuation Office. For all other common stock line categories, the NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol should not be provided.

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The listing of valid NAIC Designations, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (*www.naic.org/svo.htm*).

The NAIC Designation, Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- ~~NAIC Designation Column 18A~~
- ~~NAIC Designation Modifier Column 18B~~
- ~~SVO Administrative Symbol Column 18C~~

Detail Eliminated To Conserve Space

Column 24 – Issue

Issue information provides detailed data as to the type of security being reported.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

SCHEDULE D – PART 3

LONG-TERM BONDS AND STOCKS ACQUIRED DURING CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Subtotal – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Subtotal – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Subtotals – Issuer Credit Obligations – Part 3	0509999997
Summary item from Part 5 for Issuer Credit Obligations	0509999998
Subtotals – Issuer Credit Obligations	0509999999
Asset-Backed Securities:	
Financial Asset-Backed – Self-Liquidating	
Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC)	1039999999
Agency Commercial Mortgage-Backed Securities –	

Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999
Financial Asset-Backed – Not Self-Liquidating
Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated) 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999

Subtotal – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Subtotal – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)
Subtotals – Asset-Backed Securities – Part 3 1909999997
Summary item from Part 5 for Asset-Backed Securities 1909999998
Subtotals – Asset-Backed Securities 1909999999
Subtotals – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 14.

Detail Eliminated To Conserve Space

Column 12 – Issuer

Issuer Definition:

The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

Column 13 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided, but additional information should be provided as appropriate for the security.

6% Senior 2018
7% Subordinated Debenture 03/15/2022
3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

SCHEDULE D – PART 4

LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Subtotal – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Subtotal – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Subtotals – Issuer Credit Obligations – Part 4	0509999997
Summary item from Part 5 for Issuer Credit Obligations	0509999998
Subtotals – Issuer Credit Obligations	0509999999
Asset-Backed Securities:	
Financial Asset-Backed – Self-Liquidating	
Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1029999999

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Agency Residential Mortgage-Backed Securities –
Not/Partially Guaranteed (Not Exempt from RBC) 1039999999
Agency Commercial Mortgage-Backed Securities –
Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999
Financial Asset-Backed – Not Self-Liquidating
Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated) 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999

Subtotal – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Subtotal – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)
Subtotals – Asset-Backed Securities – Part 4 1909999997
Summary item from Part 5 for Asset-Backed Securities 1909999998
Subtotals – Asset-Backed Securities 1909999999
Subtotals – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 26.

Detail Eliminated To Conserve Space

Column 20 – Stated Contractual Maturity Date

For common stocks and funds in scope of SSAP No. 30R ~~funds~~ and SVO-Identified Bond Exchange Traded Funds, leave blank.

For perpetual bonds, enter 01/01/9999.

Detail Eliminated To Conserve Space

Column 24 – Issuer

Issuer Definition:

> The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

Column 25 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided but additional information should be provided as appropriate for the security.

> 6% Senior 2018
> 7% Subordinated Debenture 03/15/2022
> 3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

SCHEDULE D – PART 5

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE YEAR AND FULLY DISPOSED OF DURING CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Subtotal – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Subtotal – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Summary item from Part 5 for Issuer Credit Obligations	0509999998
Asset-Backed Securities:	
Financial Asset-Backed – Self-Liquidating	
Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC)	1039999999
Agency Commercial Mortgage-Backed Securities –	

Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999
Financial Asset-Backed – Not Self-Liquidating
Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated) 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999
Subtotal – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Subtotal – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)
Summary item from Part 5 for Asset-Backed Securities 1909999998
Subtotals – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 26.

Detail Eliminated To Conserve Space

Column 24 – Issuer

Issuer Definition:

The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

Detail Eliminated To Conserve Space

Column 25 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided but additional information should be provided as appropriate for the security.

6% Senior 2018
7% Subordinated Debenture 03/15/2022
3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP

SCHEDULE D – PART 6 – SECTION 1

VALUATION OF SHARES OF SUBSIDIARY, CONTROLLED OR AFFILIATED COMPANIES

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 15.

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SCHEDULE DA – PART 1

SHORT-TERM INVESTMENTS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
~~SVO-Identified Bond Exchange Traded Funds – Fair Value~~	~~0149999999~~
~~SVO-Identified Bond Exchange Traded Funds – Systematic Value~~	~~0159999999~~
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

Detail Eliminated To Conserve Space

Column 6 – Book/Adjusted Carrying Value

Securities excluding ~~SVO-Identified fund and~~ mandatory convertible bonds:

This should be the amortized value or the lower of amortized value or fair value, as appropriate (and adjusted for any other-than-temporary impairment), as of the end of the current reporting year.

Include:	The original cost of acquiring the investment, including brokerage and other related fees.
	Amortization of premium or accrual of discount, but not including any accrued interest or dividends paid thereon.
	Amortization of deferred origination and commitment fees.
Deduct:	A direct write-down for a decline in the fair value that is other-than-temporary.
Exclude:	All other costs, including internal costs or costs paid to an affiliated reporting entity related to origination, purchase or commitment to purchase, are charged to expense when incurred. Cost should also be reduced by payments attributed to the recovery of cost.
	Accrued interest or dividends.

Mandatory Convertible Bonds:

The amount should be the lower of amortized cost or fair value during the period prior to conversion.

~~SVO Identified Funds:~~

~~The amount should be fair value unless the reporting entity has designated a qualifying security for systematic value. The election of using systematic value is irrevocable.~~

~~**NOTE: Use of systematic value is effective Dec. 31, 2017.** This effective date requires entities to either report SVO Identified investments at fair value on the effective date, or to identify the SVO Identified investments with a code to identify use of systematic value. If the investment is coded for systematic value, the investment will be reported in the 2017 annual financial statements using the measurement method utilized throughout 2017. For these investments, beginning Jan. 1, 2018, the reporting entity shall report the investment using the calculated systematic value method detailed in *SSAP No. 26R—Bonds*.~~

The amount reported in this column should equal:

	Actual Cost
plus	Unrealized Valuation Increase/(Decrease) Total in Book/Adjusted Carrying Value
plus	Current Year's (Amortization)/Accretion
minus	Current Year's Other-Than-Temporary Impairment Recognized
plus	Total Foreign Exchange Change in Book/Adjusted Carrying Value
plus	Changes due to acquisitions or disposals.

Column 7 – Unrealized Valuation Increase/(Decrease)

The total unrealized valuation increase/(decrease) for a specific security will be the change in Book/Adjusted Carrying Value that is due to carrying or having carried (in the previous year) the security at Fair Value.

~~Include~~	~~For SVO identified funds, the change from the prior reported B/ACV to fair value/net asset value. If an SVO identified fund no longer qualifies for systematic value, the difference from systematic value in prior year to fair value/net asset value in current year.~~

These amounts are to be reported as unrealized capital gains (losses) in the Exhibit of Capital Gains (Losses) and in the Capital and Surplus Account.

Column 8 – Current Year's (Amortization)/Accretion

This amount should equal the current reporting year's amortization of premium or accrual of discount (regardless of whether the security is currently carried at Amortized Cost). The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income.

~~Include The (Amortization)/Accretion of SVO Identified Funds designated for reporting at systematic value.~~

Detail Eliminated To Conserve Space

Column 12 – Actual Cost

Include: Cost of acquiring the issue, including brokers' commission and incidental expenses of effecting delivery.

Exclude: Accrued interest.

For a bond received as a property dividend or capital contribution, enter the initial recognized value. See *SSAP No. 26R—Bonds* for guidance.

Column 13 – Interest Income Due and Accrued December 31 of Current Year

Report interest income earned and legally due to be paid to the reporting entity as of the reporting date (interest due) plus interest income earned as of the reporting date but not legally due to be paid to the reporting entity until subsequent to the reporting date (interest accrued). Refer to SSAP No. 34—Investment Income Due and Accrued. The amount reported in this column should be the collectible amount of the interest income due and accrued regardless of admitted/nonadmitted determination. Items probable of collection, but nonadmitted pursuant to SSAP No. 34, shall be captured in this reporting column, with the nonadmittance shown in column 2 of the balance sheet and detailed in the notes to the financial statements.

Detail Eliminated To Conserve Space

Column 18 – Interest – Amount Received During Year

Include: The proportionate share of investment income directly related to the securities reported in this schedule.

Report amounts net of foreign withholding tax.

Column 19 – Paid for Accrued Interest

The amount of accrued interest acquired by the reporting entity in the purchase of short-term investments owned at year-end.

Detail Eliminated To Conserve Space

Column 22 – NAIC Designation Category

Provide the appropriate combination of NAIC Designation Equivalent (1 through 6) and NAIC Designation Modifier Equivalent (A through G) (see table below) for each security shown.

The NAIC Designation and NAIC Designation Modifier Equivalent should not be provided for the following lines:

~~• Parent, Subsidiaries and Affiliates – Mortgage Loans Line 7019999999~~

~~• Parent, Subsidiaries and Affiliates – Other Short-Term Invested Assets Line 7029999999~~

~~• Mortgage Loans Line 7309999999~~

- Other Short-Term Invested Assets Line 7499999999 and 7509999999

~~Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.~~

The NAIC Designation Category will be two sub-columns in the data table.

~~• NAIC Designation Equivalent Column 22A~~

~~• NAIC Designation Modifier Equivalent Column 22B~~

NAIC Designation Equivalent:

For the NAIC Designation Equivalent, use the NAIC designation that would have been used for the investment had it been reported on Schedule D, Part 1 if available. If no NAIC Designation is available, the reporting entity should use a NAIC Designation Equivalent most closely resembles their credit risk the investment.

NAIC Designation Modifier Equivalent:

Bonds (Lines 0019999999 through ~~1909999999~~0509999999)

Detail Eliminated To Conserve Space

NAIC Designation Category Equivalent Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category Equivalent that represents the amount reported in Column ~~7~~6.

The sum of the amounts reported for each NAIC Designation Category Equivalent in the footnote should equal Line 0509999999.

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SCHEDULE DL – PART 1

SECURITIES LENDING COLLATERAL ASSETS
Reinvested Collateral Assets Owned December 31 Current Year
(Securities lending collateral assets reported in aggregate on Line 10 of the Asset page
(Line 9 for Separate Accounts) and not included on Schedules A, B, BA, D, DB and E)

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations (Schedule D, Part 1, Section 1 type):	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated)	0499999999

(Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)
Total – Total Issuer Credit Obligations 0509999999

Asset-Backed Securities (Schedule D, Part 1, Section 2 type):
Financial Asset-Backed Securities – Self-Liquidating
Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC)..... 1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) ... 1039999999
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) . 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated)..... 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated)..... 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated)..... 1129999999
Subtotals – Financial Asset-Backed Securities – Self-Liquidating 1209999999
Financial Asset-Backed Securities – Not Self-Liquidating
Equity Backed Securities (Unaffiliated)..... 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated)..... 1349999999
Subtotals – Financial Asset-Backed Securities – Not Self-Liquidating 1409999999
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient (Unaffiliated)..... 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated)..... 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated)..... 1549999999
Subtotals - Non-Financial Asset-Backed Securities – Practical Expedient..... 1609999999
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated)..... 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated)..... 1749999999
Subtotals - Non-Financial Asset-Backed Securities – Full Analysis..... 1809999999

Total – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Total – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)
Total – Asset-Backed Securities 1909999999

Total – Long-Term Bonds (Issuer Credit Obligations and Asset-Backed Securities) 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

For Lines 0019999999 through ~~2009999999~~1909999999, if no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in (Column 12).

Detail Eliminated To Conserve Space

Column 5 – Fair Value

The value reported for this column should be determined in a manner consistent with the fair value column instructions of other schedules for the lines shown below:

Lines 0019999999 through 0509999999 ..... Schedule D, Part 1, Section 1, Column 7
Lines 1019999999 through 1909999999 ..... Schedule D, Part 1, Section 2, Column 7
Lines 4019999999 through 4509999999 ..... Schedule D, Part 2, Section 1, Column ~~9~~8
Lines 5019999999 through 5989999999 ..... Schedule D, Part 2, Section 2, Column 7
Line 9209999999 ..... Schedule A, Part 1, Column 10
Line 9309999999 ..... FV of the underlying collateral Schedule B, Part 1
Line 9409999999 ..... Schedule BA, Part 1, Column 11

For those lines where the same type of investment is reported on other schedules but do not have a fair value column, report the amount consistent with instructions for the following:

Line 9509999999 ..... Report B/ACV, Schedule DA, Part 1, Column 6
Line 9609999999 ..... Report Balance, Schedule E Part 1, Column 6
Line 9709999999 ..... Report B/ACV, Schedule E Part 2, Column 7

Column 6 – Book/Adjusted Carrying Value

The value reported for this column should be determined in a manner consistent with the instructions of other schedules for the lines shown below:

Lines 0019999999 through 0509999999 ..... Schedule D, Part 1, Section 1, Column 8
Lines 1019999999 through 1909999999 ..... Schedule D, Part 1, Section 2, Column 8
Lines 4019999999 through 4509999999 ..... Schedule D, Part 2, Section 1, Column ~~7~~6
Lines 5019999999 through 5989999999 ..... Schedule D, Part 2, Section 2, Column 5
Line 9209999999 ..... Schedule A, Part 1, Column 9
Line 9309999999 ..... Schedule B, Part 1, Column 8
Line 9409999999 ..... Schedule BA, Part 1, Column 12
Line 9509999999 ..... Schedule DA, Part 1, Column 6
Line 9609999999 ..... Report Balance, Schedule E, Part 1, Column 6
Line 9709999999 ..... Schedule E, Part 2, Column 7

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SCHEDULE DL – PART 2

SECURITIES LENDING COLLATERAL ASSETS
Reinvested Collateral Assets Owned December 31 Current Year
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E
and not reported in aggregate on Line 10 of the Asset page (Line 9 for Separate Accounts))

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations (Schedule D, Part 1, Section 1):	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

Total – Issuer Credit Obligations (Unaffiliated) 0489999999
(Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)
Total – Issuer Credit Obligations (Affiliated) 0499999999
(Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)

Total – Total Issuer Credit Obligations 0509999999

Asset-Backed Securities (Schedule D, Part 1, Section 2):

Financial Asset-Backed Securities – Self-Liquidating

Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) 1039999999
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999
Subtotals – Financial Asset-Backed Securities – Self-Liquidating 1209999999

Financial Asset-Backed Securities – Not Self-Liquidating

Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999
Subtotals – Financial Asset-Backed Securities – Not Self-Liquidating 1409999999

Non-Financial Asset-Backed Securities – Practical Expedient

Lease-Backed Securities – Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated) 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999
Subtotals - Non-Financial Asset-Backed Securities – Practical Expedient 1609999999

Non-Financial Asset-Backed Securities – Full Analysis

Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999
Subtotals - Non-Financial Asset-Backed Securities – Full Analysis 1809999999

Total – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Total – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)

Total – Asset-Backed Securities 1909999999

Total – Long-Term Bonds (Issuer Credit Obligations and Asset-Backed Securities) 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by the ~~Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

For Lines 0019999999 through ~~2009999999~~1909999999, if no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in (Column 11).

Detail Eliminated To Conserve Space

Column 5 – Fair Value

The value reported for this column should be same for the security as reported in other schedules for the lines shown below:

Lines 0019999999 through 0509999999 ..... Schedule D, Part 1, Section 1, Column 7
Lines 1019999999 through 1909999999 ..... Schedule D, Part 1, Section 2, Column 7
Lines 4019999999 through 4509999999 ..... Schedule D, Part 2, Section 1, Column ~~9~~8
Lines 5019999999 through 5989999999 ..... Schedule D, Part 2, Section 2, Column 7
Line 9209999999 ..... Schedule A, Part 1, Column 10
Line 9309999999 ..... FV of the underlying collateral Schedule B, Part 1
Line 9409999999 ..... Schedule BA, Part 1, Column 11

For those lines where the same investment is reported on other schedules but do not have a fair value column, report the amount in these columns in the other schedules for the lines shown below:

Line 9509999999 ..... Report B/ACV, Schedule DA, Part 1, Column 6
Line 9609999999 ..... Report Balance, Schedule E, Part 1, Column 6
Line 9709999999 ..... Report B/ACV, Schedule E, Part 2, Column 7

Column 6 – Book/Adjusted Carrying Value

The value reported for this column should be same for the security as reported in other schedules for the lines shown below:

Lines 0019999999 through 0509999999 ..... Schedule D, Part 1, Section 1, Column 8
Lines 1019999999 through 1909999999 ..... Schedule D, Part 1, Section 2, Column 8
Lines 4019999999 through 4509999999 ..... Schedule D, Part 2, Section 1, Column ~~7~~6
Lines 5019999999 through 5989999999 ..... Schedule D, Part 2, Section 2, Column 5
Line 9209999999 ..... Schedule A, Part 1, Column 9
Line 9309999999 ..... Schedule B, Part 1, Column 8
Line 9409999999 ..... Schedule BA, Part 1, Column 12
Line 9509999999 ..... Schedule DA, Part 1, Column 6
Line 9609999999 ..... Report Balance, Schedule E, Part 1, Column 6
Line 9709999999 ..... Schedule E, Part 2, Column 7

Detail Eliminated To Conserve Space

Column 10 – Fair Value Hierarchy Level and Method Used to Obtain Fair Value Code

Report the fair value level that represents the inputs used to determine fair value. Whenever possible, the reported fair value shall reflect level 1, followed by level 2, and then level 3. In all situations fair value shall be determined in accordance with *SSAP No. 100R—Fair Value*. ~~Whenever possible, fair value should represent the price at which the security could be sold, based on market information. Fair value should only be determined analytically when the market based value cannot be obtained.~~

The following is a listing of valid fair value level indicators to show the fair value hierarchy level.

"1" for Level 1

"2" for Level 2

"3" for Level 3

The following is a listing of the valid method indicators to show the method used by the reporting entity to determine the Rate Used to Obtain Fair Value.

"a" for securities where the rate is determined by a pricing service.

"b" for securities where the rate is determined by a stock exchange.

"c" for securities where the rate is determined by a broker or custodian. The reporting entity should obtain and maintain the pricing policy for any broker or custodian used as a pricing source. In addition, the broker must either be approved by the reporting entity as a counterparty for buying and selling securities or be an underwriter of the security being valued.

"d" for securities where the rate is determined by the reporting entity or a third part contracted by the reporting entity. The reporting entity is required to maintain a record of the pricing methodology used.

"e" for securities where the rate is determined by the unit price published in the NAIC *Valuation of Securities*.

SCHEDULE E – PART 2 – CASH EQUIVALENTS

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
~~SVO-Identified Bond Exchange Traded Funds – Fair Value~~	~~0149999999~~
~~SVO-Identified Bond Exchange Traded Funds – Systematic Value~~	~~0159999999~~
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0279999999)	0499999999
Total – Total Issuer Credit Obligations	0509999999
Sweep Accounts	8109999999
Exempt Money Market Mutual Funds – as Identified by SVO	8209999999
All Other Money Market Mutual Funds	8309999999

Qualified Cash Pools Under SSAP No. 2R 8409999999

Other Cash Equivalents (Unaffiliated) 8499999999

Other Cash Equivalents (Affiliated) 8509999999

Total Cash Equivalents (Unaffiliated) 8589999999

(Sum of Lines: 0489999999, 8109999999, 8209999999, 8309999999, 8409999999, and 8499999999)

Total Cash Equivalents (Affiliated) 8599999999

(Sum of Lines: 0499999999~~, 8109999999, 8209999999, 8309999999,~~ and 8509999999)

Total Cash Equivalents 8609999999

Detail Eliminated To Conserve Space

Column 3 – Restricted Asset Code

Enter "%" in this column for all investments except qualifying cash pooling structures per SSAP No. 2R and money market mutual funds which have been reported on this schedule for more than one consecutive quarter.

If a cash equivalent is not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the **codes identified in the Investment Schedules General Instructions** in this column.

If the "%" code is used, the "%" code should appear first, immediately followed by the appropriate code for not being under the exclusive control of the company (**identified in the Investment Schedules General Instructions**).

Detail Eliminated To Conserve Space

Column 11 – NAIC Designation Category

Provide the appropriate combination of NAIC Designation Equivalent (1 through 6) and NAIC Designation Modifier Equivalent (A through G) (see table below) for each security shown.

The NAIC Designation and NAIC Designation Modifier Equivalent should not be provided for the following lines:

- Sweep Accounts Line 8109999999
- Exempt Money Market Mutual Funds – as Identified by the SVO Line 8209999999
- All Other Money Market Mutual Funds Line 8309999999
- Qualified Cash Pools Under SSAP No. 2 Line 8409999999
- Other Cash Equivalents Line 8509999999

~~Exchange Traded Funds – as Identified by the SVO should be reported as perpetual securities.~~

SCHEDULE D – PART 1A

QUALITY AND MATURITY DISTRIBUTION OF ALL BONDS OWNED DECEMBER 31 BY MAJOR TYPE AND NAIC DESIGNATION

The schedule summarizes the aggregate book/adjusted carrying value of all bond holdings, including those in Schedule DA and Schedule E, Part 2 by quality, designation, maturity and bond categories. Include short-term and cash equivalent bonds in the category that most closely resembles their credit risk.

Note: Prior Year Columns 9 and 10 will not be available until 2026 reporting.

Detail Eliminated To Conserve Space

b. (i) Asset-backed securities (~~these securities are considered loan-backed securities and~~ subject to the guidance in *SSAP No. 43—Asset-Backed Securities*) should be distributed based on the anticipated future prepayment cash flows used to value the security.

(ii) Other bonds with optional prepayment provisions should be distributed based on the expected future prepayments used to value the security.

(iii) SVO-Identified Bond Exchange Traded Funds (as described in the Investment Schedules General Instructions) should be reported in Column 6, "No Maturity Date" in Sections ~~9~~ 14 and 15 "SVO-Identified Funds." Only funds reported in Sections ~~9~~ 14 and 15 would be reported in Column 6.

Detail Eliminated To Conserve Space

There are ~~54~~ 55 sections to this schedule: Sections 1 through ~~50~~ 51 for each of the ~~50~~ 51 bond categories, Section ~~51~~ 52 for total bonds current year, Section ~~52~~ 53 for total bonds prior year, Section ~~53~~ 54 for total bonds publicly traded and Section ~~54~~ 55 for total bonds privately placed. The ~~50~~ 51 bond categories combine corresponding subtotals from Schedule D, Part 1, Sections 1 and 2; Schedule DA, Part 1; and Schedule E, Part 2 as follows, and for each of those ~~50~~ 51 bond categories, the total line for Column 7 of each section should equal the sum of the subtotal lines shown below:

Detail Eliminated To Conserve Space

The quality designation used is the "NAIC Designation" that appears with each bond as listed in the *Valuations of Securities*. Include short-term and cash equivalent bonds in the category that most closely resembles their credit risk. For each Section 1 through ~~26~~51, seven lines of information are shown, which are numbered in a format "X.Y" where the number "X" is the number of the section and the number "Y" is the order of the line within the section. The lines within each section are categorized as follows for Section "X".

X.1	Highest Quality	(NAIC 1)
X.2	High Quality	(NAIC 2)
X.3	Medium Quality	(NAIC 3)
X.4	Low Quality	(NAIC 4)
X.5	Lower Quality	(NAIC 5)
X.6	In or near default	(NAIC 6)
X.7	Total for section	

Detail Eliminated To Conserve Space

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Footnote (d)

Provide the total book/adjusted carrying value amount reported in Section ~~51~~52, Column 1 by NAIC designation that represents the amount of securities reported in Schedule DA and Schedule E, Part 2.

The sum of the amounts by NAIC designation (NAIC 1, NAIC 2, NAIC 3, NAIC 4, NAIC 5 and NAIC 6) reported in the footnote should equal the sum of Schedule DA, Part 1, Column 6, Line 0509999999 plus Schedule E, Part 2, Column 7, Line 0509999999.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Detail Eliminated To Conserve Space

Line 3 – Report by NAIC designation, the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks (perpetual preferred and redeemable preferred).

Report the total amount for each subcategory. The amounts reported in the bond subcategories should be consistent with the amounts reported in Schedule D, Part 1A, Column 7, Lines ~~51~~52.1 – ~~51~~52.6. Schedule D, Part 1A is reported gross and will not tie to this line if any amounts are reported and nonadmitted for bonds and preferred stocks on the asset page.

The amounts reported in the preferred stock subcategories should be consistent with the amounts reported in Asset Page, Column 3, Lines 2.1.

ANNUAL STATEMENT INSTRUCTIONS – HEALTH

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investments in Parent, Subsidiaries and Affiliates

Line 26 – Affiliated Bonds

All years ..... Schedule D Summary By Country, Line ~~12~~9 plus 15, Column 1

Line 27 – Affiliated Preferred Stocks

All years ..... Schedule D Summary By Country, Line ~~18~~22, Column 1

Line 28 – Affiliated Common Stocks

All years ..... Schedule D Summary By Country, Line ~~24~~28, Column 1

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investments in Parent, Subsidiaries and Affiliates

Line 44 – Affiliated Bonds

All years ..... Schedule D Summary By Country, Line ~~12~~9 plus 15, Column 1

Line 45 – Affiliated Preferred Stocks

All years ..... Schedule D Summary By Country, Line ~~18~~22, Column 1

Line 46 – Affiliated Common Stocks

All years ..... Schedule D Summary By Country, Line ~~24~~28, Column 1

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY/CASUALTY

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investments in Parent, Subsidiaries and Affiliates

Line 42 – Affiliated Bonds

All years ..... Schedule D Summary By Country, Line ~~12~~9 plus 15, Column 1

Line 43 – Affiliated Preferred Stocks

All years ..... Schedule D Summary By Country, Line ~~18~~22, Column 1

Line 44 – Affiliated Common Stock

All years ..... Schedule D Summary By Country, Line ~~24~~28, Column 1

COMBINED ANNUAL STATEMENT FOR AFFILIATED PROPERTY/CASUALTY INSURERS

GENERAL

Detail Eliminated To Conserve Space

6. With the exception of Schedule Z, the format to be used is that of the NAIC Annual Statement blank for property/casualty insurers. The specific pages, exhibits, and schedules to be included are as follows:

Title Page (in part)
Assets
Liabilities, Surplus and Other Funds
Statement of Income
Cash Flow
Underwriting and Investment Exhibit, Parts 1 through 3
Exhibit of Net Investment Income
Exhibit of Capital Gains (Losses)
Schedule D, Summary by Country
Schedule D, Part 1A~~, Sections 1 and 2~~
Schedule D, Parts 1 and 2, Totals (Line ~~2509999999~~2009999999, 4509999999 or 5999999999) only
Note: Do not complete the footnote for Schedule D, Parts 1 and 2

ANNUAL STATEMENT INSTRUCTIONS – TITLE

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Line 38 – Affiliated Bonds

All years ..... Schedule D Summary By Country, Line ~~12~~9 plus 15, Column 1

Line 39 – Affiliated Preferred Stock

All years ..... Schedule D Summary By Country, Line ~~18~~22, Column 1

Line 40 – Affiliated Common Stock

All years ..... Schedule D Summary By Country, Line ~~24~~28, Column 1

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

SCHEDULE E – PART 2 – VERIFICATION BETWEEN YEARS

(Cash Equivalents)

		1 Total	2 Bonds	3 Money Market Mutual Funds	4 Other ~~(a)~~
1.	Book/adjusted carrying value, December 31 of prior year				
2.	Cost of cash equivalents acquired				
3.	Accrual of discount				
4.	Unrealized valuation increase/(decrease)				
5.	Total gain (loss) on disposals				
6.	Deduct consideration received on disposals				
7.	Deduct amortization of premium				
8.	Total foreign exchange change in book/adjusted carrying value				
9.	Deduct current year's other-than-temporary impairment recognized				
10.	Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)				
11.	Deduct total nonadmitted amounts				
12.	Statement value at end of current period (Line 10 minus Line 11)				

~~(a) Indicate the category of such investments, for example, joint ventures, transportation equipment_____.~~

Attachment Two-B
Accounting Practices and Procedures (E) Task Force
3/25/25

SCHEDULE D – PART 1A

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
1. U.S. Government Obligations												
1.1 NAIC 1						XXX			XXX	XXX		
1.2 NAIC 2						XXX			XXX	XXX		
1.3 NAIC 3						XXX			XXX	XXX		
1.4 NAIC 4						XXX			XXX	XXX		
1.5 NAIC 5						XXX			XXX	XXX		
1.6 NAIC 6						XXX			XXX	XXX		
1.7 Totals						XXX			XXX	XXX		
2. Other U.S. Government Securities												
2.1 NAIC 1						XXX			XXX	XXX		
2.2 NAIC 2						XXX			XXX	XXX		
2.3 NAIC 3						XXX			XXX	XXX		
2.4 NAIC 4						XXX			XXX	XXX		
2.5 NAIC 5						XXX			XXX	XXX		
2.6 NAIC 6						XXX			XXX	XXX		
2.7 Totals						XXX			XXX	XXX		
3. Non-U.S. Sovereign Jurisdiction Securities												
3.1 NAIC 1						XXX			XXX	XXX		
3.2 NAIC 2						XXX			XXX	XXX		
3.3 NAIC 3						XXX			XXX	XXX		
3.4 NAIC 4						XXX			XXX	XXX		
3.5 NAIC 5						XXX			XXX	XXX		
3.6 NAIC 6						XXX			XXX	XXX		
3.7 Totals						XXX			XXX	XXX		
4. Municipal Bonds – General Obligations												
4.1 NAIC 1						XXX			XXX	XXX		
4.2 NAIC 2						XXX			XXX	XXX		
4.3 NAIC 3						XXX			XXX	XXX		
4.4 NAIC 4						XXX			XXX	XXX		
4.5 NAIC 5						XXX			XXX	XXX		
4.6 NAIC 6						XXX			XXX	XXX		
4.7 Totals						XXX			XXX	XXX		
5. Municipal Bonds – Special Revenue												
5.1 NAIC 1						XXX			XXX	XXX		
5.2 NAIC 2						XXX			XXX	XXX		
5.3 NAIC 3						XXX			XXX	XXX		
5.4 NAIC 4						XXX			XXX	XXX		
5.5 NAIC 5						XXX			XXX	XXX		
5.6 NAIC 6						XXX			XXX	XXX		
5.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
6. Project Finance Bonds Issued by Operating Entities (Unaffiliated)												
6.1 NAIC 1						XXX			XXX	XXX		
6.2 NAIC 2						XXX			XXX	XXX		
6.3 NAIC 3						XXX			XXX	XXX		
6.4 NAIC 4						XXX			XXX	XXX		
6.5 NAIC 5						XXX			XXX	XXX		
6.6 NAIC 6						XXX			XXX	XXX		
6.7 Totals						XXX			XXX	XXX		
7. Project Finance Bonds Issued by Operating Entities (Affiliated)												
7.1 NAIC 1						XXX			XXX	XXX		
7.2 NAIC 2						XXX			XXX	XXX		
7.3 NAIC 3						XXX			XXX	XXX		
7.4 NAIC 4						XXX			XXX	XXX		
7.5 NAIC 5						XXX			XXX	XXX		
7.6 NAIC 6						XXX			XXX	XXX		
7.7 Totals						XXX			XXX	XXX		
8. Corporate Bonds (Unaffiliated)												
8.1 NAIC 1						XXX			XXX	XXX		
8.2 NAIC 2						XXX			XXX	XXX		
8.3 NAIC 3						XXX			XXX	XXX		
8.4 NAIC 4						XXX			XXX	XXX		
8.5 NAIC 5						XXX			XXX	XXX		
8.6 NAIC 6						XXX			XXX	XXX		
8.7 Totals						XXX			XXX	XXX		
9. Corporate Bonds (Affiliated)												
9.1 NAIC 1						XXX			XXX	XXX		
9.2 NAIC 2						XXX			XXX	XXX		
9.3 NAIC 3						XXX			XXX	XXX		
9.4 NAIC 4						XXX			XXX	XXX		
9.5 NAIC 5						XXX			XXX	XXX		
9.6 NAIC 6						XXX			XXX	XXX		
9.7 Totals						XXX			XXX	XXX		
10. Mandatory Convertible Bonds (Unaffiliated)												
10.1 NAIC 1						XXX			XXX	XXX		
10.2 NAIC 2						XXX			XXX	XXX		
10.3 NAIC 3						XXX			XXX	XXX		
10.4 NAIC 4						XXX			XXX	XXX		
10.5 NAIC 5						XXX			XXX	XXX		
10.6 NAIC 6						XXX			XXX	XXX		
10.7 Totals						XXX			XXX	XXX		
11. Mandatory Convertible Bonds (Affiliated)												
11.1 NAIC 1						XXX			XXX	XXX		
11.2 NAIC 2						XXX			XXX	XXX		
11.3 NAIC 3						XXX			XXX	XXX		
11.4 NAIC 4						XXX			XXX	XXX		
11.5 NAIC 5						XXX			XXX	XXX		
11.6 NAIC 6						XXX			XXX	XXX		
11.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
12. Single Entity Backed Obligations (Unaffiliated)												
12.1 NAIC 1						XXX			XXX	XXX		
12.2 NAIC 2						XXX			XXX	XXX		
12.3 NAIC 3						XXX			XXX	XXX		
12.4 NAIC 4						XXX			XXX	XXX		
12.5 NAIC 5						XXX			XXX	XXX		
12.6 NAIC 6						XXX			XXX	XXX		
12.7 Totals						XXX			XXX	XXX		
13. Single Entity Backed Obligations (Affiliated)												
13.1 NAIC 1						XXX			XXX	XXX		
13.2 NAIC 2						XXX			XXX	XXX		
13.3 NAIC 3						XXX			XXX	XXX		
13.4 NAIC 4						XXX			XXX	XXX		
13.5 NAIC 5						XXX			XXX	XXX		
13.6 NAIC 6						XXX			XXX	XXX		
13.7 Totals						XXX			XXX	XXX		
14. SVO-Identified Bond Exchange Traded Funds – Fair Value												
14.1 NAIC 1	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
14.2 NAIC 2	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
14.3 NAIC 3	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
14.4 NAIC 4	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
14.5 NAIC 5	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
14.6 NAIC 6	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
14.7 Totals	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15. SVO-Identified Bond Exchange Traded Funds – Systematic Value												
15.1 NAIC 1	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15.2 NAIC 2	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15.3 NAIC 3	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15.4 NAIC 4	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15.5 NAIC 5	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15.6 NAIC 6	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
15.7 Totals	XXX	XXX	XXX	XXX	XXX				XXX	XXX		
16. Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)												
16.1 NAIC 1						XXX			XXX	XXX		
16.2 NAIC 2						XXX			XXX	XXX		
16.3 NAIC 3						XXX			XXX	XXX		
16.4 NAIC 4						XXX			XXX	XXX		
16.5 NAIC 5						XXX			XXX	XXX		
16.6 NAIC 6						XXX			XXX	XXX		
16.7 Totals						XXX			XXX	XXX		
17. Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)												
17.1 NAIC 1						XXX			XXX	XXX		
17.2 NAIC 2						XXX			XXX	XXX		
17.3 NAIC 3						XXX			XXX	XXX		
17.4 NAIC 4						XXX			XXX	XXX		
17.5 NAIC 5						XXX			XXX	XXX		
17.6 NAIC 6						XXX			XXX	XXX		
17.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~5~~12.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
18. Bank Loans – Issued (Unaffiliated)												
18.1 NAIC 1						XXX			XXX	XXX		
18.2 NAIC 2						XXX			XXX	XXX		
18.3 NAIC 3						XXX			XXX	XXX		
18.4 NAIC 4						XXX			XXX	XXX		
18.5 NAIC 5						XXX			XXX	XXX		
18.6 NAIC 6						XXX			XXX	XXX		
18.7 Totals						XXX			XXX	XXX		
19. Bank Loans – Issued (Affiliated)												
19.1 NAIC 1						XXX			XXX	XXX		
19.2 NAIC 2						XXX			XXX	XXX		
19.3 NAIC 3						XXX			XXX	XXX		
19.4 NAIC 4						XXX			XXX	XXX		
19.5 NAIC 5						XXX			XXX	XXX		
19.6 NAIC 6						XXX			XXX	XXX		
19.7 Totals						XXX			XXX	XXX		
20. Bank Loans – Acquired (Unaffiliated)												
20.1 NAIC 1						XXX			XXX	XXX		
20.2 NAIC 2						XXX			XXX	XXX		
20.3 NAIC 3						XXX			XXX	XXX		
20.4 NAIC 4						XXX			XXX	XXX		
20.5 NAIC 5						XXX			XXX	XXX		
20.6 NAIC 6						XXX			XXX	XXX		
20.7 Totals						XXX			XXX	XXX		
21. Bank Loans – Acquired (Affiliated)												
21.1 NAIC 1						XXX			XXX	XXX		
21.2 NAIC 2						XXX			XXX	XXX		
21.3 NAIC 3						XXX			XXX	XXX		
21.4 NAIC 4						XXX			XXX	XXX		
21.5 NAIC 5						XXX			XXX	XXX		
21.6 NAIC 6						XXX			XXX	XXX		
21.7 Totals						XXX			XXX	XXX		
22. Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)												
22.1 NAIC 1						XXX			XXX	XXX		
22.2 NAIC 2						XXX			XXX	XXX		
22.3 NAIC 3						XXX			XXX	XXX		
22.4 NAIC 4						XXX			XXX	XXX		
22.5 NAIC 5						XXX			XXX	XXX		
22.6 NAIC 6						XXX			XXX	XXX		
22.7 Totals						XXX			XXX	XXX		
23. Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)												
23.1 NAIC 1						XXX			XXX	XXX		
23.2 NAIC 2						XXX			XXX	XXX		
23.3 NAIC 3						XXX			XXX	XXX		
23.4 NAIC 4						XXX			XXX	XXX		
23.5 NAIC 5						XXX			XXX	XXX		
23.6 NAIC 6						XXX			XXX	XXX		
23.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
24. Certificates of Deposit (Unaffiliated)												
24.1 NAIC 1						XXX			XXX	XXX		
24.2 NAIC 2						XXX			XXX	XXX		
24.3 NAIC 3						XXX			XXX	XXX		
24.4 NAIC 4						XXX			XXX	XXX		
24.5 NAIC 5						XXX			XXX	XXX		
24.6 NAIC 6						XXX			XXX	XXX		
24.7 Totals						XXX			XXX	XXX		
25. Certificates of Deposit (Affiliated)												
25.1 NAIC 1						XXX			XXX	XXX		
25.2 NAIC 2						XXX			XXX	XXX		
25.3 NAIC 3						XXX			XXX	XXX		
25.4 NAIC 4						XXX			XXX	XXX		
25.5 NAIC 5						XXX			XXX	XXX		
25.6 NAIC 6						XXX			XXX	XXX		
25.7 Totals						XXX			XXX	XXX		
26. Other Issuer Credit Obligations (Unaffiliated)												
26.1 NAIC 1						XXX			XXX	XXX		
26.2 NAIC 2						XXX			XXX	XXX		
26.3 NAIC 3						XXX			XXX	XXX		
26.4 NAIC 4						XXX			XXX	XXX		
26.5 NAIC 5						XXX			XXX	XXX		
26.6 NAIC 6						XXX			XXX	XXX		
26.7 Totals						XXX			XXX	XXX		
27. Other Issuer Credit Obligations (Affiliated)												
27.1 NAIC 1						XXX			XXX	XXX		
27.2 NAIC 2						XXX			XXX	XXX		
27.3 NAIC 3						XXX			XXX	XXX		
27.4 NAIC 4						XXX			XXX	XXX		
27.5 NAIC 5						XXX			XXX	XXX		
27.6 NAIC 6						XXX			XXX	XXX		
27.7 Totals						XXX			XXX	XXX		
28. Agency Residential Mortgage-Backed Securities - Guaranteed												
28.1 NAIC 1						XXX			XXX	XXX		
28.2 NAIC 2						XXX			XXX	XXX		
28.3 NAIC 3						XXX			XXX	XXX		
28.4 NAIC 4						XXX			XXX	XXX		
28.5 NAIC 5						XXX			XXX	XXX		
28.6 NAIC 6						XXX			XXX	XXX		
28.7 Totals						XXX			XXX	XXX		
29. Agency Commercial Mortgage-Backed Securities - Guaranteed												
29.1 NAIC 1						XXX			XXX	XXX		
29.2 NAIC 2						XXX			XXX	XXX		
29.3 NAIC 3						XXX			XXX	XXX		
29.4 NAIC 4						XXX			XXX	XXX		
29.5 NAIC 5						XXX			XXX	XXX		
29.6 NAIC 6						XXX			XXX	XXX		
29.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
30. Agency Residential Mortgage-Backed Securities – Not Guaranteed												
30.1 NAIC 1						XXX			XXX	XXX		
30.2 NAIC 2						XXX			XXX	XXX		
30.3 NAIC 3						XXX			XXX	XXX		
30.4 NAIC 4						XXX			XXX	XXX		
30.5 NAIC 5						XXX			XXX	XXX		
30.6 NAIC 6						XXX			XXX	XXX		
30.7 Totals						XXX			XXX	XXX		
31. Agency Commercial Mortgage-Backed Securities – Not Guaranteed												
31.1 NAIC 1						XXX			XXX	XXX		
31.2 NAIC 2						XXX			XXX	XXX		
31.3 NAIC 3						XXX			XXX	XXX		
31.4 NAIC 4						XXX			XXX	XXX		
31.5 NAIC 5						XXX			XXX	XXX		
31.6 NAIC 6						XXX			XXX	XXX		
31.7 Totals						XXX			XXX	XXX		
32. Non-Agency Residential Mortgage-Backed Securities (Unaffiliated)												
32.1 NAIC 1						XXX			XXX	XXX		
32.2 NAIC 2						XXX			XXX	XXX		
32.3 NAIC 3						XXX			XXX	XXX		
32.4 NAIC 4						XXX			XXX	XXX		
32.5 NAIC 5						XXX			XXX	XXX		
32.6 NAIC 6						XXX			XXX	XXX		
32.7 Totals						XXX			XXX	XXX		
33. Non-Agency Residential Mortgage-Backed Securities (Affiliated)												
33.1 NAIC 1						XXX			XXX	XXX		
33.2 NAIC 2						XXX			XXX	XXX		
33.3 NAIC 3						XXX			XXX	XXX		
33.4 NAIC 4						XXX			XXX	XXX		
33.5 NAIC 5						XXX			XXX	XXX		
33.6 NAIC 6						XXX			XXX	XXX		
33.7 Totals						XXX			XXX	XXX		
34. Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated)												
34.1 NAIC 1						XXX			XXX	XXX		
34.2 NAIC 2						XXX			XXX	XXX		
34.3 NAIC 3						XXX			XXX	XXX		
34.4 NAIC 4						XXX			XXX	XXX		
34.5 NAIC 5						XXX			XXX	XXX		
34.6 NAIC 6						XXX			XXX	XXX		
34.7 Totals						XXX			XXX	XXX		
35. Non-Agency Commercial Mortgage-Backed Securities (Affiliated)												
35.1 NAIC 1						XXX			XXX	XXX		
35.2 NAIC 2						XXX			XXX	XXX		
35.3 NAIC 3						XXX			XXX	XXX		
35.4 NAIC 4						XXX			XXX	XXX		
35.5 NAIC 5						XXX			XXX	XXX		
35.6 NAIC 6						XXX			XXX	XXX		
35.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
36. Non-Agency – CLOs/CBOs/CDOs (Unaffiliated)												
36.1 NAIC 1						XXX			XXX	XXX		
36.2 NAIC 2						XXX			XXX	XXX		
36.3 NAIC 3						XXX			XXX	XXX		
36.4 NAIC 4						XXX			XXX	XXX		
36.5 NAIC 5						XXX			XXX	XXX		
36.6 NAIC 6						XXX			XXX	XXX		
36.7 Totals						XXX			XXX	XXX		
37. Non-Agency – CLOs/CBOs/CDOs (Affiliated)												
37.1 NAIC 1						XXX			XXX	XXX		
37.2 NAIC 2						XXX			XXX	XXX		
37.3 NAIC 3						XXX			XXX	XXX		
37.4 NAIC 4						XXX			XXX	XXX		
37.5 NAIC 5						XXX			XXX	XXX		
37.6 NAIC 6						XXX			XXX	XXX		
37.7 Totals						XXX			XXX	XXX		
38. Other Financial Asset-Backed Securities (Unaffiliated)												
38.1 NAIC 1						XXX			XXX	XXX		
38.2 NAIC 2						XXX			XXX	XXX		
38.3 NAIC 3						XXX			XXX	XXX		
38.4 NAIC 4						XXX			XXX	XXX		
38.5 NAIC 5						XXX			XXX	XXX		
38.6 NAIC 6						XXX			XXX	XXX		
38.7 Totals						XXX			XXX	XXX		
39. Other Financial Asset-Backed Securities (Affiliated)												
39.1 NAIC 1						XXX			XXX	XXX		
39.2 NAIC 2						XXX			XXX	XXX		
39.3 NAIC 3						XXX			XXX	XXX		
39.4 NAIC 4						XXX			XXX	XXX		
39.5 NAIC 5						XXX			XXX	XXX		
39.6 NAIC 6						XXX			XXX	XXX		
39.7 Totals						XXX			XXX	XXX		
40. Equity-Backed Securities (Unaffiliated)												
40.1 NAIC 1						XXX			XXX	XXX		
40.2 NAIC 2						XXX			XXX	XXX		
40.3 NAIC 3						XXX			XXX	XXX		
40.4 NAIC 4						XXX			XXX	XXX		
40.5 NAIC 5						XXX			XXX	XXX		
40.6 NAIC 6						XXX			XXX	XXX		
40.7 Totals						XXX			XXX	XXX		
41. Equity-Backed Securities (Affiliated)												
41.1 NAIC 1						XXX			XXX	XXX		
41.2 NAIC 2						XXX			XXX	XXX		
41.3 NAIC 3						XXX			XXX	XXX		
41.4 NAIC 4						XXX			XXX	XXX		
41.5 NAIC 5						XXX			XXX	XXX		
41.6 NAIC 6						XXX			XXX	XXX		
41.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line ~~51~~52.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
42. Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated)												
42.1 NAIC 1						XXX			XXX	XXX		
42.2 NAIC 2						XXX			XXX	XXX		
42.3 NAIC 3						XXX			XXX	XXX		
42.4 NAIC 4						XXX			XXX	XXX		
42.5 NAIC 5						XXX			XXX	XXX		
42.6 NAIC 6						XXX			XXX	XXX		
42.7 Totals						XXX			XXX	XXX		
43. Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated)												
43.1 NAIC 1						XXX			XXX	XXX		
43.2 NAIC 2						XXX			XXX	XXX		
43.3 NAIC 3						XXX			XXX	XXX		
43.4 NAIC 4						XXX			XXX	XXX		
43.5 NAIC 5						XXX			XXX	XXX		
43.6 NAIC 6						XXX			XXX	XXX		
43.7 Totals						XXX			XXX	XXX		
44. Lease-Backed Securities – Practical Expedient (Unaffiliated)												
44.1 NAIC 1						XXX			XXX	XXX		
44.2 NAIC 2						XXX			XXX	XXX		
44.3 NAIC 3						XXX			XXX	XXX		
44.4 NAIC 4						XXX			XXX	XXX		
44.5 NAIC 5						XXX			XXX	XXX		
44.6 NAIC 6						XXX			XXX	XXX		
44.7 Totals						XXX			XXX	XXX		
45. Lease-Backed Securities – Practical Expedient (Affiliated)												
45.1 NAIC 1						XXX			XXX	XXX		
45.2 NAIC 2						XXX			XXX	XXX		
45.3 NAIC 3						XXX			XXX	XXX		
45.4 NAIC 4						XXX			XXX	XXX		
45.5 NAIC 5						XXX			XXX	XXX		
45.6 NAIC 6						XXX			XXX	XXX		
45.7 Totals						XXX			XXX	XXX		
46. Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated)												
46.1 NAIC 1						XXX			XXX	XXX		
46.2 NAIC 2						XXX			XXX	XXX		
46.3 NAIC 3						XXX			XXX	XXX		
46.4 NAIC 4						XXX			XXX	XXX		
46.5 NAIC 5						XXX			XXX	XXX		
46.6 NAIC 6						XXX			XXX	XXX		
46.7 Totals						XXX			XXX	XXX		
47. Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated)												
47.1 NAIC 1						XXX			XXX	XXX		
47.2 NAIC 2						XXX			XXX	XXX		
47.3 NAIC 3						XXX			XXX	XXX		
47.4 NAIC 4						XXX			XXX	XXX		
47.5 NAIC 5						XXX			XXX	XXX		
47.6 NAIC 6						XXX			XXX	XXX		
47.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line 521.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
48. Lease-Backed Securities – Full Analysis (Unaffiliated)												
48.1 NAIC 1						XXX			XXX	XXX		
48.2 NAIC 2						XXX			XXX	XXX		
48.3 NAIC 3						XXX			XXX	XXX		
48.4 NAIC 4						XXX			XXX	XXX		
48.5 NAIC 5						XXX			XXX	XXX		
48.6 NAIC 6						XXX			XXX	XXX		
48.7 Totals						XXX			XXX	XXX		
49. Lease-Backed Securities – Full Analysis (Affiliated)												
49.1 NAIC 1						XXX			XXX	XXX		
49.2 NAIC 2						XXX			XXX	XXX		
49.3 NAIC 3						XXX			XXX	XXX		
49.4 NAIC 4						XXX			XXX	XXX		
49.5 NAIC 5						XXX			XXX	XXX		
49.6 NAIC 6						XXX			XXX	XXX		
49.7 Totals						XXX			XXX	XXX		
50. Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated)												
50.1 NAIC 1						XXX			XXX	XXX		
50.2 NAIC 2						XXX			XXX	XXX		
50.3 NAIC 3						XXX			XXX	XXX		
50.4 NAIC 4						XXX			XXX	XXX		
50.5 NAIC 5						XXX			XXX	XXX		
50.6 NAIC 6						XXX			XXX	XXX		
50.7 Totals						XXX			XXX	XXX		
51. Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated)												
510.1 NAIC 1						XXX			XXX	XXX		
510.2 NAIC 2						XXX			XXX	XXX		
510.3 NAIC 3						XXX			XXX	XXX		
510.4 NAIC 4						XXX			XXX	XXX		
510.5 NAIC 5						XXX			XXX	XXX		
510.6 NAIC 6						XXX			XXX	XXX		
510.7 Totals						XXX			XXX	XXX		

SCHEDULE D – PART 1A (Continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line 5152.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
5152. Total Bonds Current Year												
521.1 NAIC 1	(d)								XXX	XXX		
521.2 NAIC 2	(d)								XXX	XXX		
521.3 NAIC 3	(d)								XXX	XXX		
521.4 NAIC 4	(d)								XXX	XXX		
521.5 NAIC 5	(d)						(c)		XXX	XXX		
521.6 NAIC 6	(d)						(c)		XXX	XXX		
521.7 Totals							(b)		XXX	XXX		
521.8 Line 521.7 as a % of Col. 7								XXX	XXX	XXX		
5253. Total Bonds Prior Year												
532.1 NAIC 1							XXX	XXX	XXX	XXX		
532.2 NAIC 2							XXX	XXX	XXX	XXX		
532.3 NAIC 3							XXX	XXX	XXX	XXX		
532.4 NAIC 4							XXX	XXX	XXX	XXX		
532.5 NAIC 5							XXX	XXX	(c) XXX	XXX		
532.6 NAIC 6							XXX	XXX	(c) XXX	XXX		
532.7 Totals							XXX	XXX	(b) XXX	XXX		
532.8 Line 532.7 as a % of Col. 9								XXX	XXX	XXX		
543. Total Publicly Traded Bonds												
543.1 NAIC 1									XXX	XXX		XXX
543.2 NAIC 2									XXX	XXX		XXX
543.3 NAIC 3									XXX	XXX		XXX
543.4 NAIC 4									XXX	XXX		XXX
543.5 NAIC 5									XXX	XXX		XXX
543.6 NAIC 6									XXX	XXX		XXX
543.7 Totals									XXX	XXX		XXX
543.8 Line 543.7 as a % of Col. 7								XXX	XXX	XXX		XXX
543.9 Line 543.7 as a % of Line 521.7, Col. 7, Section 12								XXX	XXX	XXX		XXX
554. Total Privately Placed Bonds												
554.1 NAIC 1									XXX	XXX	XXX	
554.2 NAIC 2									XXX	XXX	XXX	
554.3 NAIC 3									XXX	XXX	XXX	
554.4 NAIC 4									XXX	XXX	XXX	
554.5 NAIC 5									XXX	XXX	XXX	
554.6 NAIC 6									XXX	XXX	XXX	
554.7 Totals									XXX	XXX	XXX	
554.8 Line 554.7 as a % of Col. 7								XXX	XXX	XXX	XXX	
554.9 Line 554.7 as a % of Line 521.7, Col. 7, Section 12								XXX	XXX	XXX	XXX	

Attachment Two-B
Accounting Practices and Procedures (E) Task Force
3/25/25

SUMMARY INVESTMENT SCHEDULE

		Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
		1	2	3	4	5	6
	Investment Categories	Amount	Percentage of Column 1 Line ~~13~~14	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage of Column 5 Line ~~13~~14
1.	Issuer credit obligations (Schedule D, Part 1, Section 1):						
	1.01 U.S. government obligations						
	1.02 Other U.S. government obligations						
	1.03 Non-U.S. sovereign jurisdiction securities						
	1.04 Municipal bonds – general obligations (direct & guaranteed)						
	1.05 Municipal bonds – special revenue						
	1.06 Project finance bonds issued by operating entities						
	1.07 Corporate bonds						
	1.08 Mandatory convertible bonds						
	1.09 Single entity backed obligations						
	1.10 SVO-Identified bond exchange traded funds – fair value						
	1.11 SVO-Identified bond exchange traded funds – systematic value						
	1.12 Bonds issued from SEC-registered business development corps, closed end funds & REITS						
	1.13 Bank loans – issued						
	1.14 Bank loans – acquired						
	1.15 Mortgages loans that qualify as SVO-Identified credit tenant loans						
	1.16 Certificates of deposit						
	1.17 Other issuer credit obligations						
	1.18 Total issuer credit obligations						
2.	Asset-backed securities (Schedule D, Part 1, Section 2):						
	2.01 Financial asset-backed securities – self-liquidating						
	2.02 Financial asset-backed securities – not self-liquidating						
	2.03 Non-financial asset-backed securities						
	2.04 Total asset-backed securities						
3.	Preferred stocks (Schedule D, Part 2, Section 1):						
	3.01 Industrial and miscellaneous (Unaffiliated)						
	3.02 Parent, subsidiaries and affiliates						
	3.03 Total preferred stocks						
4.	Common stocks (Schedule D, Part 2, Section 2):						
	4.01 Industrial and miscellaneous Publicly traded (Unaffiliated)						
	4.02 Industrial and miscellaneous Other (Unaffiliated)						
	4.03 Parent, subsidiaries and affiliates Publicly traded						
	4.04 Parent, subsidiaries and affiliates Other						
	4.05 Mutual funds						
	4.06 Unit investment trusts						
	4.07 Closed-end funds						
	4.08 Exchange traded funds						
	4.09 Total common stocks						
5.	Mortgage loans (Schedule B):						
	5.01 Farm mortgages						
	5.02 Residential mortgages						
	5.03 Commercial mortgages						
	5.04 Mezzanine real estate loans						
	5.05 Total valuation allowance						
	5.06 Total mortgage loans						
6.	Real estate (Schedule A):						
	6.01 Properties occupied by company						
	6.02 Properties held for production of income						
	6.03 Properties held for sale						
	6.04 Total real estate						
7.	Cash, cash equivalents and short-term investments:						
	7.01 Cash (Schedule E, Part 1)						
	7.02 Cash equivalents (Schedule E, Part 2)						
	7.03 Short-term investments (Schedule DA)						
	7.04 Total cash, cash equivalents and short-term investments						
8.	Contract loans						
9.	Derivatives (Schedule DB)						
10.	Other invested assets (Schedule BA)						
11.	Receivables for securities						
12.	Securities lending (Schedule DL, Part 1)				XXX	XXX	XXX
13.	Other invested assets (Page 2, Line 11)						
14.	Total invested assets						

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GENERAL INTERROGATORIES

31. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (–), or Fair Value over Statement (+)
31.1 Issuer Credit Obligations			
31.2 Asset-Backed Securities			
31.3 Preferred Stocks			
31.4 Totals			

31.~~4~~5 Describe the sources or methods utilized in determining the fair values:.....
.....
.....
.....

ANNUAL STATEMENT BLANK – HEALTH

FIVE–YEAR HISTORICAL DATA

	1 2025	2 2024	3 2023	4 2022	5 2021
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 28)					
2. Total liabilities (Page 3, Line 24)					
3. Statutory minimum capital and surplus requirement					
4. Total capital and surplus (Page 3, Line 33)					
Income Statement (Page 4)					
5. Total revenues (Line 8)					
6. Total medical and hospital expenses (Line 18)					
7. Claims adjustment expenses (Line 20)					
8. Total administrative expenses (Line 21)					
9. Net underwriting gain (loss) (Line 24)					
10. Net investment gain (loss) (Line 27)					
11. Total other income (Lines 28 plus 29)					
12. Net income or (loss) (Line 32)					
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)					
Risk-Based Capital Analysis					
14. Total adjusted capital					
15. Authorized control level risk-based capital					
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)					
17. Total members months (Column 6, Line 7)					
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)					
20. Cost containment expenses					
21. Other claims adjustment expenses					
22. Total underwriting deductions (Line 23)					
23. Total underwriting gain (loss) (Line 24)					
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 17, Col. 5)					
25. Estimated liability of unpaid claims-[prior year (Line 17, Col. 6)]					
Investments in Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line ~~12~~9+15, Col. 1)					
27. Affiliated preferred stocks (Sch. D Summary, Line ~~18~~22, Col. 1)					
28. Affiliated common stocks (Sch. D Summary, Line ~~24~~28, Col. 1)					
29. Affiliated mortgage loans on real estate					
30. All other affiliated					
31. Total of above Lines 26 to 30					
32. Total investment in parent included in Lines 26 to 30 above.					

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of *SSAP No. 3—Accounting Changes and Correction of Errors*? Yes [ ] No [ ]
If no, please explain .....

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

FIVE–YEAR HISTORICAL DATA

	1 2025	2 2024	3 2023	4 2022	5 2021
Life Insurance in Force					
(Exhibit of Life Insurance)					
1. Ordinary-whole life and endowment (Line 34, Col. 4)					
2. Ordinary-term (Line 21, Col. 4, less Line 34, Col. 4)					
3. Credit life (Line 21, Col. 6)					
4. Group, excluding FEGLI/SGLI (Line 21, Col. 9 less Lines 43 & 44, Col. 4)					
5. Industrial (Line 21, Col. 2)					
6. FEGLI/SGLI (Lines 43 & 44, Col. 4)					
7. Total (Line 21, Col. 10)					
7.1 Total in force for which VM-20 deterministic/stochastic reserves are calculated					
New Business Issued					
(Exhibit of Life Insurance)					
8. Ordinary-whole life and endowment (Line 34, Col. 2)					
9. Ordinary-term (Line 2, Col. 4, less Line 34, Col. 2)					
10. Credit life (Line 2, Col. 6)					
11. Group (Line 2, Col. 9)					
12. Industrial (Line 2, Col. 2)					
13. Total (Line 2, Col. 10)					
Premium Income-Lines of Business					
(Exhibit 1 – Part 1)					
14. Individual life (Line 20.4, Col. 2)					
15. Group life (Line 20.4, Col. 3)					
16. Individual annuities (Line 20.4, Col. 4)					
17. Group annuities (Line 20.4, Col. 5)					
18. Accident & Health (Line 20.4, Col. 6)					
19. Other lines of business (Line 20.4, Col. 8)					
20. Total					
Balance Sheet					
(Pages 2 and 3)					
21. Total admitted assets excluding Separate Accounts business (Page 2, Line 26, Col. 3)					
22. Total liabilities excluding Separate Accounts business (Page 3, Line 26)					
23. Aggregate life reserves (Page 3, Line 1)					
23.1 Excess VM-20 deterministic/stochastic reserve over NPR related to Line 7.1					
24. Aggregate A & H reserves (Page 3, Line 2)					
25. Deposit-type contract funds (Page 3, Line 3)					
26. Asset valuation reserve (Page 3, Line 24.01)					
27. Capital (Page 3, Lines 29 & 30)					
28. Surplus (Page 3, Line 37)					
Cash Flow (Page 5)					
29. Net cash from operations (Line 11)					
Risk-Based Capital Analysis					
30. Total adjusted capital					
31. Authorized control level risk-based capital					
Percentage Distribution of Cash, Cash Equivalents and Invested Assets					
(Page 2, Col. 3) (Line No./Page 2, Line 12, Col. 3) x 100.0					
32. Bonds (Line 1)					
33. Stocks (Lines 2.1 and 2.2)					
34. Mortgage loans on real estate (Lines 3.1 and 3.2)					
35. Real estate (Lines 4.1, 4.2 and 4.3)					
36. Cash, cash equivalents and short-term investments (Line 5)					
37. Contract loans (Line 6)					
38. Derivatives (Page 2, Line 7)					
39. Other invested assets (Line 8)					
40. Receivables for securities (Line 9)					
41. Securities lending reinvested collateral assets (Line 10)					
42. Aggregate write-ins for invested assets (Line 11)					
43. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
44. Affiliated bonds (Sch. D Summary, Line ~~12~~9+15, Col. 1)					
45. Affiliated preferred stocks (Sch. D Summary, Line ~~18~~22, Col. 1)					
46. Affiliated common stocks (Sch. D Summary, Line ~~24~~28, Col. 1)					
47. Affiliated mortgage loans on real estate					
48. All other affiliated					
49. Total of above Lines 44 to 49					
50. Total investment in parent included in Lines 44 to 49 above					

ANNUAL STATEMENT BLANK – PROPERTY

FIVE–YEAR HISTORICAL DATA

		1 2025	2 2024	3 2023	4 2022	5 2021
	Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1.	Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)					
2.	Property lines (Lines 1, 2, 9, 12, 21 & 26)					
3.	Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)					
4.	All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)					
5.	Nonproportional reinsurance lines (Lines 31, 32 & 33)					
6.	Total (Line 35)					
	Net Premiums Written (Page 8, Part 1B, Col. 6)					
7.	Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3,19.4)					
8.	Property lines (Lines 1, 2, 9, 12, 21 & 26)					
9.	Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)					
10.	All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)					
11.	Nonproportional reinsurance lines (Lines 31, 32 & 33)					
12.	Total (Line 35)					
	Statement of Income (Page 4)					
13.	Net underwriting gain (loss) (Line 8)					
14.	Net investment gain (loss) (Line 11)					
15.	Total other income (Line 15)					
16.	Dividends to policyholders (Line 17)					
17.	Federal and foreign income taxes incurred (Line 19)					
18.	Net income (Line 20)					
	Balance Sheet Lines (Pages 2 and 3)					
19.	Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)					
20.	Premiums and considerations (Page 2, Col. 3)					
	20.1 In course of collection (Line 15.1)					
	20.2 Deferred and not yet due (Line 15.2)					
	20.3 Accrued retrospective premiums (Line 15.3)					
21.	Total liabilities excluding protected cell business (Page 3, Line 26)					
22.	Losses (Page 3, Line 1)					
23.	Loss adjustment expenses (Page 3, Line 3)					
24.	Unearned premiums (Page 3, Line 9)					
25.	Capital paid up (Page 3, Lines 30 & 31)					
26.	Surplus as regards policyholders (Page 3, Line 37)					
	Cash Flow (Page 5)					
27.	Net cash from operations (Line 11)					
	Risk-Based Capital Analysis					
28.	Total adjusted capital					
29.	Authorized control level risk-based capital					
	Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
30.	Bonds (Line 1)					
31.	Stocks (Lines 2.1 & 2.2)					
32.	Mortgage loans on real estate (Lines 3.1 and 3.2)					
33.	Real estate (Lines 4.1, 4.2 & 4.3)					
34.	Cash, cash equivalents and short-term investments (Line 5)					
35.	Contract loans (Line 6)					
36.	Derivatives (Line 7)					
37.	Other invested assets (Line 8)					
38.	Receivables for securities (Line 9)					
39.	Securities lending reinvested collateral assets (Line 10)					
40.	Aggregate write-ins for invested assets (Line 11)					
41.	Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
	Investments in Parent, Subsidiaries and Affiliates					
42.	Affiliated bonds, (Sch. D, Summary, Line ~~12~~9+15, Col. 1)					
43.	Affiliated preferred stocks (Sch. D, Summary, Line ~~18~~22, Col. 1)					
44.	Affiliated common stocks (Sch. D, Summary, Line 2~~8~~4, Col. 1)					
45.	Affiliated mortgage loans on real estate					
46.	All other affiliated					
47.	Total of above Lines 42 to 46					
48.	Total investment in parent included in Lines 42 to 46 above					
49.	Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 47 above divided by Page 3, Col. 1, Line 37 x 100.0)					

ANNUAL STATEMENT BLANK – TITLE

FIVE–YEAR HISTORICAL DATA

		1 2025	2 2024	3 2023	4 2022	5 2021
	Source of Direct Title Premiums Written (Part 1A)					
1.	Direct operations (Part 1A, Line 1, Col. 1)					
2.	Non-affiliated agency operations (Part 1A, Line 1, Col. 2)					
3.	Affiliated agency operations (Part 1A, Line 1, Col. 3)					
4.	Total					
	Operating Income Summary (Page 4 & Part 1)					
5.	Premiums earned (Part 1B, Line 3)					
6.	Escrow and settlement service charges (Part 1A, Line 2)					
7.	Title examinations (Part 1A, Line 3)					
8.	Searches and abstracts (Part 1A, Line 4)					
9.	Surveys (Part 1A, Line 5)					
10.	Aggregate write-ins for service charges (Part 1A, Line 6)					
11.	Other operating income (Page 4, Line 2)					
12.	Total operating income (Page 4, Line 3)					
	Statement of Income (Page 4)					
13.	Net operating gain or (loss) (Line 8)					
14.	Net investment gain or (loss) (Line 11)					
15.	Total other income (Line 12)					
16.	Federal and foreign income taxes incurred (Line 14)					
17.	Net income (Line 15)					
	Balance Sheet (Pages 2 and 3)					
18.	Title insurance premiums and fees receivable (Page 2, Line 15, Col. 3)					
19.	Total admitted assets excluding segregated accounts (Page 2, Line 26, Col. 3)					
20.	Known claims reserve (Page 3, Line 1)					
21.	Statutory premium reserve (Page 3, Line 2)					
22.	Total liabilities (Page 3, Line 23)					
23.	Capital paid up (Page 3, Lines 25 + 26)					
24.	Surplus as regards policyholders (Page 3, Line 32)					
	Cash Flow (Page 5)					
25.	Net cash from operations (Line 11)					
	Percentage Distribution of Cash, Cash-Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
26.	Bonds (Line 1)					
27.	Stocks (Lines 2.1 & 2.2)					
28.	Mortgage loans on real estate (Line 3.1 and 3.2)					
29.	Real estate (Lines 4.1, 4.2 & 4.3)					
30.	Cash, cash equivalents and short-term investments (Line 5)					
31.	Contract loans (Line 6)					
32.	Derivatives (Line 7)					
33.	Other invested assets (Line 8)					
34.	Receivable for securities (Line 9)					
35.	Securities lending reinvested collateral assets (Line 10)					
36.	Aggregate write-ins for invested assets (Line 11)					
37.	Subtotals cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
	Investments in Parent, Subsidiaries and Affiliates					
38.	Affiliated bonds (Sch. D Summary, Line ~~12~~9+15, Col. 1)					
39.	Affiliated preferred stocks (Sch. D, Summary, Line ~~18~~22, Col. 1)					
40.	Affiliated common stocks (Sch. D, Summary, Line ~~24~~28, Col. 1)					
41.	Affiliated mortgage loans on real estate					
42.	All other affiliated					
43.	Total of above Lines 38 to 43					
44.	Total investment in parent included in Lines 38 to 43 above					
45.	Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 44 above divided by Page 3, Line 32, Col. 1 x 100.0)					

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2b-2024-13bwg_modified.docx

Attachment Two-C
Accounting Practices and Procedures (E) Task Force
3/25/25

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 9/26/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-14BWG MOD
		Year 2025
TELEPHONE:		Changes to Existing Reporting [X]
		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X]
		Modifies Required Disclosure [ ]
NAME:	**Dale Bruggeman**	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
TITLE:	**Chair SAPWG**	****If Yes, complete question below****
AFFILIATION:	**Ohio Department of Insurance**	**DISPOSITION**
ADDRESS:	**50W. Town St., 3rd Fl., Ste. 300**	[ ] Rejected For Public Comment
	Columbus, OH 43215	[ ] Referred To Another NAIC Group
		[X] Received For Public Comment
		[ ] Adopted Date _____
		[ ] Rejected Date _____
		[ ] Deferred Date _____
		[ ] Other (Specify) _____

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other _____
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the 2025 annual (2026 quarterly) investment schedules line category for Bonds Issued by Funds Representing Operating Entities. (Annual - Investment Schedule General Instructions, Summary Investment Sch., Summary By Country, Sch. D Part 1A, Sch. D Part 1 Section 1, Sch. D Part 3, 4, & 5, Sch. DA Part 1, Sch. DL Part 1 & 2, and Sch. E Part 2 / Quarterly – Investment Schedule General Instructions, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 2)

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to update the issuer credit obligation line category from "Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS" to "Bonds Issued by Funds Representing Operating Entities". *SAPWG Ref # 2024-01*

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments: *For 2025 quarterly reporting there is a SAPWG Memo on the BWG webpage.*

**** This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

Bonds Issued by Funds Representing Operating Entities~~Bonds Issued From SEC-Registered Business Development Corps, Closed-End Funds & REITs~~:

Bonds issued by funds representing operating entities. A fund representing an operating entity has a primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. However, this is in service to meeting the fund's primary equity-investor objective. For 1940-Act registered closed-end funds (CEFs) and business development corporations (BDCs), debt securities issued from the fund in accordance with permitted leverage ratios represent debt issued by operating entities and qualify as issuer credit obligations. Although some may consider collateralized fund obligations (CFOs) to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities. Bonds issued by real estate investment trusts (REITs) or similar property trusts

~~Bonds issued by SEC-registered business development corporates, closed-end funds or similar operating entities registered under the 1940 Act.~~

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SUMMARY INVESTMENT SCHEDULE

This schedule was developed to assist regulators in identifying and analyzing the risks inherent in a portfolio of securities as well as identifying the differences in valuation and admission between those practices prescribed or permitted by the state of domicile and those set forth in the NAIC *Accounting Practices and Procedures Manual*. This schedule includes only those assets from the general account. The line captions were developed with the intention of grouping securities with common risk characteristics together. These groupings were determined based upon a review of schedules within the NAIC Annual Statement and the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices (FFIEC 031, also known as the "Call Report").

Detail Eliminated To Conserve Space

Line 1.12 – Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~

Include: Bonds issued by funds representing operating entities. See Investment Schedule General Instructions.~~Bonds issued by SEC registered business development corporates, closed end funds or similar operating entities registered under the 1940 Act.~~

Column 1 should equal the Schedule D, Part 1, Section 1, Line 0169999999 plus Line 0179999999.

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SCHEDULE D – SUMMARY BY COUNTRY

LONG-TERM BONDS AND STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Enter summarized amounts in the appropriate columns by the specified major classifications, subdividing into United States, Canada, and Other Countries where applicable. For purposes of this schedule, investments in Other Countries are considered Foreign Investments. For the definition of Foreign Investment, and Domestic Investment, see instructions to the Supplemental Investment Risk Interrogatories.



Lines 5 Through 8 – All Other Issuer Credit Obligations (Unaffiliated)

Include the following categories:

Project Finance Bonds Issued by Operating Entities (Unaffiliated)..... 0069999999
Corporate Bonds (Unaffiliated)..... 0089999999
Mandatory Convertible Bonds (Unaffiliated) 0109999999
Single Entity Backed Obligations (Unaffiliated) 0129999999
SVO-Identified Bond Exchange Traded Funds – Fair Value..... 0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value..... 0159999999
Bonds Issued by Funds Representing Operating Entities (Unaffiliated)~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)~~ 0169999999
Bank Loans – Issued (Unaffiliated)..... 0189999999
Bank Loans – Acquired (Unaffiliated)..... 0209999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaff.)..... 0229999999
Certificates of Deposit (Unaffiliated)..... 0249999999
Other Issuer Credit Obligations (Unaffiliated)..... 0269999999

Line 9 – All Other Issuer Credit Obligations (Affiliated)

Include the following categories:

Project Finance Bonds Issued by Operating Entities (Affiliated) 0079999999
Corporate Bonds (Affiliated) 0099999999
Mandatory Convertible Bonds (Affiliated) 0119999999
Single Entity Backed Obligations (Affiliated) 0139999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Affiliated) 0179999999
Bank Loans – Issued (Affiliated) 0199999999
Bank Loans – Acquired (Affiliated)..... 0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated).. 0239999999
Certificates of Deposit (Affiliated)..... 0259999999
Other Issuer Credit Obligations (Affiliated)..... 0279999999

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SCHEDULE D – PART 1A

QUALITY AND MATURITY DISTRIBUTION OF ALL BONDS OWNED DECEMBER 31 BY MAJOR TYPE AND NAIC DESIGNATION

The schedule summarizes the aggregate book/adjusted carrying value of all bond holdings, including those in Schedule DA and Schedule E, Part 2 by quality, designation, maturity and bond categories. Include short-term and cash equivalent bonds in the category that most closely resembles their credit risk.

Detail Eliminated To Conserve Space

Section 16. Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Unaffiliated)

Line 0169999999 from Schedule D, Part 1, Section 1, Column 8; Schedule DA, Part 1, Column 6; and Schedule E, Part 2, Column 7.

Section 17. Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Affiliated)

Line 0179999999 from Schedule D, Part 1, Section 1, Column 8; Schedule DA, Part 1, Column 6; and Schedule E, Part 2, Column 7.

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SCHEDULE D – PART 1- SECTION 1

LONG-TERM BONDS – ISSUER CREDIT OBLIGATIONS OWNED DECEMBER 31 OF CURRENT YEAR

Only investments that qualify in scope of *SSAP 26R – Bonds* are permitted to be reported on this schedule. Bonds are to be grouped as listed below and each category arranged alphabetically.

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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Attachment Two-C
Accounting Practices and Procedures (E) Task Force
3/25/25

SCHEDULE D – PART 3

LONG-TERM BONDS AND STOCKS ACQUIRED DURING CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE D – PART 4

LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE D – PART 5

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE YEAR AND FULLY DISPOSED OF DURING CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE DA – PART 1

SHORT-TERM INVESTMENTS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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Attachment Two-C
Accounting Practices and Procedures (E) Task Force
3/25/25

SCHEDULE DL – PART 1

SECURITIES LENDING COLLATERAL ASSETS

Reinvested Collateral Assets Owned December 31 Current Year
(Securities lending collateral assets reported in aggregate on Line 10 of the Asset page
(Line 9 for Separate Accounts) and not included on Schedules A, B, BA, D, DB and E)

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE DL – PART 2

SECURITIES LENDING COLLATERAL ASSETS

Reinvested Collateral Assets Owned December 31 Current Year
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E
and not reported in aggregate on Line 10 of the Asset page (Line 9 for Separate Accounts))

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE E – PART 2 – CASH EQUIVALENTS

List all investments owned whose maturities (or repurchase dates under repurchase agreement) at the time of acquisition were three months or less and defined as cash equivalents in accordance with *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*. Include Money Market Mutual Funds.

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps, Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

Bonds Issued by Funds Representing Operating Entities~~Bonds Issued From SEC-Registered Business Development Corps, Closed-End Funds & REITs~~:

Bonds issued by funds representing operating entities. A fund representing an operating entity has a primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. However, this is in service to meeting the fund's primary equity-investor objective. For 1940-Act registered closed-end funds (CEFs) and business development corporations (BDCs), debt securities issued from the fund in accordance with permitted leverage ratios represent debt issued by operating entities and qualify as issuer credit obligations. Although some may consider collateralized fund obligations (CFOs) to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities. Bonds issued by real estate investment trusts (REITs) or similar property trusts

~~Bonds issued by SEC-registered business development corporates, closed-end funds or similar operating entities registered under the 1940 Act.~~

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SCHEDULE D – PART 3

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE D – PART 4

LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING THE CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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Attachment Two-C
Accounting Practices and Procedures (E) Task Force
3/25/25

SCHEDULE DL – PART 1

SECURITIES LENGING COLLATERAL ASSETS

Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets reported in aggregate on Line 10 of the asset page
(Line 9 for Separate Accounts) and not included on Schedules A, B, BA, D, DB and E.)

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE DL – PART 2

SECURITIES LENDING COLLATERAL ASSETS
Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E
(Line 9 for Separate Accounts) and not reported in aggregate on Line 10 of the asset page.)

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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SCHEDULE E – PART 2 – CASH EQUIVALENTS

INVESTMENTS OWNED END OF CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Unaffiliated)	0169999999
Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC Registered Business Development Corps,Closed End Funds & REITS~~ (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

SUMMARY INVESTMENT SCHEDULE

		Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
		1	2	3	4	5	6
	Investment Categories	Amount	Percentage of Column 1 Line 13	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage of Column 5 Line 13
1.	Issuer credit obligations (Schedule D, Part 1, Section 1):						
	1.01 U.S. government obligations						
	1.02 Other U.S. government obligations						
	1.03 Non-U.S. sovereign jurisdiction securities						
	1.04 Municipal bonds – general obligations (direct & guaranteed)						
	1.05 Municipal bonds – special revenue						
	1.06 Project finance bonds issued by operating entities						
	1.07 Corporate bonds						
	1.08 Mandatory convertible bonds						
	1.09 Single entity backed obligations						
	1.10 SVO-Identified bond exchange traded funds – fair value						
	1.11 SVO-Identified bond exchange traded funds – systematic value						
	1.12 Bonds Issued by Funds Representing Operating Entities~~Bonds issued from SEC-registered business development corps, closed end funds &REITS~~						
	1.13 Bank loans – issued						
	1.14 Bank loans – acquired						
	1.15 Mortgages loans that qualify as SVO-Identified credit tenant loans						
	1.16 Certificates of deposit						
	1.17 Other issuer credit obligations						
	1.18 Total issuer credit obligations						
2.	Asset-backed securities (Schedule D, Part 1, Section 2):						
	2.01 Financial asset-backed securities – self-liquidating (unaffiliated)						
	2.02 Financial asset-backed securities – not self-liquidating (unaffiliated)						
	2.03 Non-financial asset-backed securities (unaffiliated)						
	2.04 Total asset-backed securities						
3.	Preferred stocks (Schedule D, Part 2, Section 1):						
	3.01 Industrial and miscellaneous (Unaffiliated)						
	3.02 Parent, subsidiaries and affiliates						
	3.03 Total preferred stocks						
4.	Common stocks (Schedule D, Part 2, Section 2):						
	4.01 Industrial and miscellaneous Publicly traded (Unaffiliated)						
	4.02 Industrial and miscellaneous Other (Unaffiliated)						
	4.03 Parent, subsidiaries and affiliates Publicly traded						
	4.04 Parent, subsidiaries and affiliates Other						
	4.05 Mutual funds						
	4.06 Unit investment trusts						
	4.07 Closed-end funds						
	4.08 Exchange traded funds						
	4.09 Total common stocks						
5.	Mortgage loans (Schedule B):						
	5.01 Farm mortgages						
	5.02 Residential mortgages						
	5.03 Commercial mortgages						
	5.04 Mezzanine real estate loans						
	5.05 Total valuation allowance						
	5.06 Total mortgage loans						
6.	Real estate (Schedule A):						
	6.01 Properties occupied by company						
	6.02 Properties held for production of income						
	6.03 Properties held for sale						
	6.04 Total real estate						
7.	Cash, cash equivalents and short-term investments:						
	7.01 Cash (Schedule E, Part 1)						
	7.02 Cash equivalents (Schedule E, Part 2)						
	7.03 Short-term investments (Schedule DA)						
	7.04 Total cash, cash equivalents and short-term investments						
8.	Contract loans						
9.	Derivatives (Schedule DB)						
10.	Other invested assets (Schedule BA)						
11.	Receivables for securities						
12.	Securities lending (Schedule DL, Part 1)				XXX	XXX	XXX
13.	Other invested assets (Page 2, Line 11)						
14.	Total invested assets						

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SCHEDULE D – PART 1A

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 No Maturity Date	7 Total Current Year	8 Col. 7 as a % of Line 12.7	9 Total from Col. 7 Prior Year	10 % From Col. 8 Prior Year	11 Total Publicly Traded	12 Total Privately Placed (a)
Detail Eliminated To Conserve Space												
16. Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS~~ (Unaffiliated)												
16.1 NAIC 1	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
16.2 NAIC 2	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
16.3 NAIC 3	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
16.4 NAIC 4	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
16.5 NAIC 5	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
16.6 NAIC 6						XXX						
16.7 Totals						XXX						
17. Bonds Issued by Funds Representing Operating Entities~~Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS~~ (Affiliated)												
17.1 NAIC 1	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
17.2 NAIC 2	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
17.3 NAIC 3	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
17.4 NAIC 4	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
17.5 NAIC 5	.....	.....	.....	.....	.....	XXX	.....	.....	.....	.....	.....	.....
17.6 NAIC 6						XXX						
17.7 Totals						XXX						

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 10/01/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-15BWG
		Year 2025
TELEPHONE:		Changes to Existing Reporting [X]
		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X] Modifies Required Disclosure [ ]
NAME:	Steve Drutz	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO] ****If Yes, complete question below****
TITLE:	Chief Financial Analyst	
AFFILIATION:	WA Office of the Insurance Commissioner	**DISPOSITION**
ADDRESS:		[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [X] Received For Public Comment [ ] Adopted Date _____ [ ] Rejected Date _____ [ ] Deferred Date _____ [ ] Other (Specify) _____

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other _____
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Remove the ACA disclosure on the transitional reinsurance program and the risk corridors program from the Supplemental Health Care Exhibit.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY/CASUALTY, & HEALTH

SUPPLEMENTAL HEALTH CARE EXHIBIT – PARTS 1 AND 2

Detail Eliminated To Conserve Space

ACA RECEIPTS, PAYMENTS, RECEIVABLES and PAYABLES TABLE

Permanent ACA Risk Adjustment Program

The amounts from the lines below for Column 1, Individual Plans and Column 2, Small Group Employer Plans, are included in the amount reported on Line 1.1 of Part 2:

Line 1.0 Premium adjustments receivable/(payable)
Line 42.0 Premium adjustments receipts/(payments)

~~**Transitional ACA Reinsurance Program**~~

~~The amounts from the lines below for Column 1, Individual Plans, are included in the amount reported on Line 2.17 and Line 2.18 of Part 2:~~

~~Line 2.0 Amounts recoverable for claims (paid & unpaid)~~
~~Line 5.0 Amounts received for claims~~

~~**Temporary ACA Risk Corridors Program**~~

~~The amounts from the lines below for Column 1, Individual Plans and Column 2, Small Group Employer Plans, are included in the amount reported on Line 1.6 of Part 2:~~

~~Line 3.1 Accrued retrospective premium~~
~~Line 3.2 Reserve for rate credits or policy experience refunds~~

~~The amounts from the lines below for Column 1, Individual Plans and Column 2, Small Group Employer Plans, are included in the amount reported on Line 1.5 of Part 2:~~

~~Line 6.1 Retrospective premium received~~
~~Line 6.2 Rate credits or policy experience refunds paid~~

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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, & HEALTH

SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 1 (Continued)
(To Be Filed By April 1 – Not for Rebate Purposes)

		Business Subject to MLR									10	11	12	13	14	15
		Comprehensive Health Coverage			Mini-Med Plans			Expatriate Plans		9						
		1 Individual	2 Small Group Employer	3 Large Group Employer	4 Individual	5 Small Group Employer	6 Large Group Employer	7 Small Group	8 Large Group	Student Health Plans	Government Business (excluded by statute)	Other Health Business	Medicare Advantage Part C and Medicare Part D Stand-Alone Subject to ACA	Subtotal (Cols 1 thru 12)	Uninsured Plans	Total 13 + 14
10.	General and Administrative (G&A) Expenses:															
	10.1 Direct sales salaries and benefits															
	10.2 Agents and brokers fees and commissions															
	10.3 Other taxes (excluding taxes on Lines 1.5 through 1.7 and Line 14 below)															
	10.4 Other general and administrative expenses															
	10.4a Community Benefit Expenditures (informational only)															
	10.5 Total general and administrative (Lines 10.1 + 10.2 + 10.3 + 10.4)															
11.	Underwriting Gain/(Loss) (Lines 1.12 – 5.7 – 6.6 – 8.3 – 10.5)														XXX	
12.	Income from Fees of Uninsured Plans	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		
13.	Net Investment and Other Gain/(Loss)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		XXX	
14.	Federal Income Taxes (excluding taxes on Line 1.5 above)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		XXX	
15.	Net Gain or (Loss) (Lines 11 + 12 + 13 – 14)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		XXX	
16.	ICD-10 Implementation Expenses (informational only; already included in general expenses and Line 10.4)															
	16a ICD-10 Implementation Expenses (informational only: already included in Line 10.4)															
	OTHER INDICATORS:															
1.	Number of Certificates/Policies															
2.	Number of Covered Lives															
3.	Number of Groups	XXX			XXX											
4.	Member Months															

Is run-off business reported in Columns 1 through 9 or 12? ..... Yes [ ] No [ ] If yes, show the amount of premiums and claims included: Premiums $..... Claims $ .....

AFFORDABLE CARE ACT (ACA) RECEIPTS, PAYMENTS, RECEIVABLES AND PAYABLES					
		Current Year		Prior Year	
		Comprehensive Health Coverage		Comprehensive Health Coverage	
		1 Individual Plans	2 Small Group Employer Plans	3 Individual Plans	4 Small Group Employer Plans
ACA Receivables and Payables					
1.	Permanent ACA Risk Adjustment Program 1.0 Premium adjustments receivable/(payable)				
~~2.~~	~~Transitional ACA Reinsurance Program~~ ~~2.0 Total amounts recoverable for claims (paid & unpaid)~~		~~XXX~~		~~XXX~~
~~3.~~	~~Temporary ACA Risk Corridors Program~~ ~~3.1 Accrued retrospective premium~~ ~~3.2 Reserve for rate credits or policy experience refunds~~				
ACA Receipts and Payments					
~~4.~~ 4.	Permanent ACA Risk Adjustment Program ~~4.~~ 4.0 Premium adjustments receipts/(payments)				
~~5.~~	~~Transitional ACA Reinsurance Program~~ ~~5.0 Amounts received for claims~~		~~XXX~~		~~XXX~~
~~6.~~	~~Temporary ACA Risk Corridors Program~~ ~~6.1 Retrospective premium received~~ ~~6.2 Rate credits or policy experience refunds paid~~				

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2d-2024-15bwg.docx

Attachment Two-E
Accounting Practices and Procedures (E) Task Force
3/25/25

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 10/10/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-16BWG
		Year 2026
TELEPHONE:		Changes to Existing Reporting [X]
		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X] Modifies Required Disclosure [ ]
NAME:	**Dale Bruggeman**	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO] ****If Yes, complete question below****
TITLE:	**Chair SAPWG**	**DISPOSITION**
AFFILIATION:	**Ohio Department of Insurance**	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [X] Received For Public Comment [ ] Adopted Date [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)
ADDRESS:	**50W. Town St., 3rd Fl., Ste. 300**	
	Columbus, OH 43215	

BLANK(S) TO WHICH PROPOSAL APPLIES

[ ] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: 1st Quarter 2026

IDENTIFICATION OF ITEM(S) TO CHANGE

Remove the quarterly investment interrogatory line 13 for reporting mortgages and real estate in short-term investments. Renumber all lines below the line being removed.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to remove the interrogatory because mortgages and real estate should not be included in short-term investments. With adopted Blanks proposal 2024-02BWG, there was added guidance for short-term investments stating that these should not be included.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

**** This section must be completed on all forms.** **Revised 11/17/2022**

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QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, HEALTH, & TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

Detail Eliminated To Conserve Space

INVESTMENT

11.1	Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.)	Yes [ ] No [ ]
11.2	If yes, give full and complete information relating thereto:	
12.	Amount of real estate and mortgages held in other invested assets in Schedule BA:	$_____
~~13.~~	~~Amount of real estate and mortgages held in short-term investments:~~	~~$_____~~

*****Filing Note – All remaining lines will need to be renumbered in the instructions and blank.*****

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2e-2024-16bwg.docx

Attachment Two-F
Accounting Practices and Procedures (E) Task Force
3/25/25

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 09/27/2024	**FOR NAIC USE ONLY**
CONTACT PERSON: Teresa Cooper	Agenda Item # 2024-17BWG Year 2025 Changes to Existing Reporting [X] New Reporting Requirement [ ]
TELEPHONE: 816-783-8226	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
EMAIL ADDRESS: tcooper@naic.org	No Impact [X] Modifies Required Disclosure [ ]
ON BEHALF OF:	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO] ****If Yes, complete question below****
NAME:	**DISPOSITION**
TITLE:	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [X] Received For Public Comment [ ] Adopted Date [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)
AFFILIATION:	
ADDRESS:	

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[ ] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a line to the Market Conduct Annual Statement (MCAS) Premium Exhibit for Pet Insurance.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is add a Pet Insurance reporting line for MCAS exhibit.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, & HEALTH

MARKET CONDUCT ANNUAL STATEMENT (MCAS) PREMIUM EXHIBIT FOR YEAR

For The Year Ended December 31, 20__
(To Be Filed by March 1)
FOR THE STATE OF .....

NAIC Group Code…….. NAIC Company Code……

MCAS LINE OF BUSINESS	1 MCAS Reportable Premium/Considerations (YES/NO)
1. Disability income	.....
2. Health	.....
3. Homeowners	.....
4. Individual annuity	.....
5. Individual life	.....
6. Lender-placed home and auto	.....
7. Long-term care	.....
8. Other health	.....
9. Private flood	.....
10. Private passenger auto	.....
11. Short-term limited duration health plans	.....
12. Travel	.....
13. Pet Insurance Plans	

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Attachment Two-G
Accounting Practices and Procedures (E) Task Force
3/25/25

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 10/01/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-18BWG
		Year 2025
TELEPHONE:		Changes to Existing Reporting [X]
		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X] Modifies Required Disclosure [ ]
NAME:	Steve Drutz	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO] ****If Yes, complete question below****
TITLE:	Chief Financial Analyst	**DISPOSITION**
AFFILIATION:	WA Office of the Insurance Commissioner	
ADDRESS:		[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [X] Received For Public Comment [ ] Adopted Date _____ [ ] Rejected Date _____ [ ] Deferred Date _____ [ ] Other (Specify) _____

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other _____
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a footnote to the Supplemental Health Care Exhibit (SHCE) Part 2 to report the amount of premium deficiency reserves that are included in different lines of Part 2.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The crosschecks for Column 13 on SHCE Part 2 that compare to the Accident and Health Policy Experience Exhibit currently have a Note that they won't tie if there are Premium Deficiency Reserves. There are quite a few companies that have to provide an explanation for the crosscheck difference and with the addition of the footnote we can update the crosscheck and any failures will be true failures and will allow the review process to be more timely.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY/CASUALTY, & HEALTH

SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 2

Column 13 – Total

For Part 2, the GT (Grand Total) page:

- Column 13, Line 1.16 (Net Premiums Earned) should equal the Accident and Health Policy Experience Exhibit, Column 5, Line D2 (Grand Total Individual, Group and Other Business) minus Line D1 (Total Non-U.S. Policy Forms).
- Column 13, Line 1.11 (Total Direct Premiums Earned) minus Line 1.5 (Paid Rate Credits) minus Line 1.8 (Change in Reserve for Rate Credits) plus Line 1.15 (Other Adjustments Due to MLR Calculation – Premiums) should equal the Accident and Health Policy Experience Exhibit, Column 2, Line D2 (Grand Total Individual, Group and Other Business) minus Line D1 (Total Non-U.S. Policy Forms).
- Column 13, Line 2.20 (Net Incurred Claims) minus Line 2.11 (Incurred Medical Incentive Pools and Bonuses) should equal the Accident and Health Policy Experience Exhibit, Columns 9 plus 10, Line D2 (Grand Total Individual, Group and Other Business) minus Line D1 (Total Non-U.S. Policy Forms).
- Column 13, Line 2.15 (Total Incurred Claims) minus Line 2.8 (Paid Rate Credits) minus Line 2.9 (Reserve for Rate Credits Current Year) plus Line 2.10 (Reserve for Rate Credits Prior Year) minus Line 2.11 (Incurred Medical Incentive Pools and Bonuses) plus Line 2.19 (Other Adjustments Due to MLR Calculation – Claims) should equal the Accident and Health Policy Experience Exhibit, Columns 6 plus 10, Line D2 (Grand Total Individual, Group and Other Business) minus Line D1 (Total Non-U.S. Policy Forms).

~~NOTE: If the reporting entity has a Premium Deficiency Reserve, they will fail the crosschecks above due to the Accident and Health Policy Experience Exhibit excluding Premium Deficiency Reserve. The reporting entity should provide that explanation for the crosscheck failure.~~

Detail Eliminated To Conserve Space

Footnote (a)

Report the amount of direct written premium included in Column 13, Line 1.1 for stand-alone dental and vision policies.

Footnote (b)

Report the amount premium deficiency reserves (PDR) that is included in Column 13, Line 2.19.

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, & HEALTH

SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 2

(To Be Filed By April 1 – Not for Rebate Purposes)

REPORT FOR: 1. CORPORATION _____ 2. _____ (LOCATION)

NAIC Group Code _____ BUSINESS IN THE STATE OF _____ DURING THE YEAR _____ NAIC Company Code _____

		Business Subject to MLR												
		Comprehensive Health Coverage			Mini-Med Plans			Expatriate Plans		9	10	11	12	13
		1	2	3	4	5	6	7	8					
		Individual	Small Group Employer	Large Group Employer	Individual	Small Group Employer	Large Group Employer	Small Group	Large Group	Student Health Plans	Government Business (excluded by statute)	Other Health Business	Medicare Advantage Part C and Medicare Part D Stand-Alone Subject to ACA	Total (a) (b)
1.	Health Premiums Earned:													
	1.1 Direct premiums written													
	1.2 Unearned premium prior year													
	1.3 Unearned premium current year													
	1.4 Change in unearned premium (Lines 1.2 – 1.3)													
	1.5 Paid rate credits													
	1.6 Reserve for rate credits current year													
	1.7 Reserve for rate credits prior year													
	1.8 Change in reserve for rate credits (Lines 1.6 – 1.7)													
	1.9 Premium balances written off													
	1.10 Group conversion charges													
	1.11 Total direct premiums earned (Lines 1.1 + 1.4 – 1.9 + 1.10)													
	1.12 Assumed premiums earned from non-affiliates													
	1.13 Net assumed less ceded premiums earned from affiliates													
	1.14 Ceded premiums earned to non-affiliates													
	1.15 Other adjustments due to MLR calculation – Premiums													
	1.16 Net premiums earned (Lines 1.11 – 1.5 – 1.8 + 1.12 + 1.13 – 1.14 + 1.15)													
2.	Direct Claims Incurred:													
	2.1 Paid claims during the year													
	2.2 Direct claim liability current year													
	2.3 Direct claim liability prior year													
	2.4 Direct claim reserves current year													
	2.5 Direct claim reserves prior year													
	2.6 Direct contract reserves current year													

	2.7	Direct contract reserves prior year																
	2.8	Paid rate credits																
	2.9	Reserve for rate credits current year																
	2.10	Reserve for rate credits prior year																
	2.11	Incurred medical incentive pools and bonuses (Lines 2.11a + 2.11b – 2.11c)																
		2.11a Paid medical incentive pools and bonuses current year																
		2.11b Accrued medical incentive pools and bonuses current year																
		2.11c Accrued medical incentive pools and bonuses prior year																
	2.12	Net health care receivables (Lines 2.12a – 2.12b)																
		2.12a Health care receivables current year																
		2.12b Health care receivables prior year																
	2.13	Group conversion charge																
	2.14	Multi-option coverage blended rate adjustment																
	2.15	Total incurred claims (Lines 2.1 + 2.2 – 2.3 + 2.4 – 2.5 + 2.6 – 2.7 + 2.8 + 2.9 – 2.10 + 2.11 – 2.12 + 2.13 + 2.14)																
	2.16	Assumed incurred claims from non-affiliates																
	2.17	Net assumed less ceded incurred claims from affiliates																
	2.18	Ceded incurred claims to non-affiliates																
	2.19	Other adjustments due to MLR calculation – Claims																
	2.20	Net Incurred Claims (Lines 2.15 – 2.8 – 2.9 + 2.10 + 2.16 + 2.17 – 2.18 + 2.19)																
3.		Fraud and Abuse Recoveries that Reduced PAID Claims in Line 2.1 above (informational only)																

(a) Column 13, Line 1.1 includes direct written premium of $..... for stand-alone dental and $..... for stand-alone vision policies.
(b) Premium Deficiency Reserves included in Column 13, Line 2.19 $.....

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2g-2024-18bwg.docx

Attachment Two-H
Accounting Practices and Procedures (E) Task Force
3/25/25

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**10/10/2024**
CONTACT PERSON:	
TELEPHONE:	
EMAIL ADDRESS:	
ON BEHALF OF:	
NAME:	**Dale Bruggeman**
TITLE:	**Chair SAPWG**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50W. Town St., 3rd Fl., Ste. 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-19BWG Mod
Year 2025
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [X]
Modifies Required Disclosure [ ]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[X] Received For Public Comment
[ ] Adopted Date _____
[ ] Rejected Date _____
[ ] Deferred Date _____
[ ] Other (Specify) _____

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other_____
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: ~~Annual 2025 /~~ Quarterly 2026 / Annual 2026

IDENTIFICATION OF ITEM(S) TO CHANGE

Update Schedule BA line categories and instructions for the expansion of collateral loans. Add two electronic only columns on Schedule BA, Part 1 for reporting fair value of collateral backing and the percentage of the collateral. Update the Asset Valuation Reserve instructions and blank for the added collateral loan lines.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to update the instructions and blank for the SAPWG's expansion of reporting for collateral loans to enable regulators the ability to quickly identify the type of collateral. *SAPWG Ref #2023-28*

****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:_____

Other Comments: *For 2025 quarterly reporting there is a SAPWG Memo on the BWG webpage.*

** **This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS

Detail Eliminated To Conserve Space

Collateral Loans – Reported by Collateral that Secures the Loan

Backed by Mortgage Loans

Unaffiliated 3199999

Affiliated 3299999

Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies

Unaffiliated 3399999

Affiliated 3499999

Backed by Residual Tranches or Interests

Unaffiliated 3599999

Affiliated 3699999

Backed by Debt Securities

Unaffiliated 3799999

Affiliated 3899999

Backed by Real Estate

Unaffiliated 3999999

Affiliated 4099999

Collateral Loans – ~~All Other~~Backed by Other Collateral Types

Unaffiliated 4199999

Affiliated 4299999

Non-collateral Loans

~~Unaffiliated~~Related Party Loans~~/Affiliated Loans~~ ..... ~~3399999~~4399999

~~AffiliatedAll Other Non-Collateral Loans~~Other Unaffiliated Loans ..... ~~3499999~~4499999

Affiliated Loans 4599999

Yield Guaranteed State Tax Credit Investments

Unaffiliated ..... ~~3599999~~4699999

Affiliated ..... ~~3699999~~4799999

Qualifying Federal Tax Credit Investments

Unaffiliated ..... ~~3799999~~4899999

Affiliated ..... ~~3899999~~4999999

Qualifying State Tax Credit Investments

Unaffiliated ..... ~~3999999~~5099999

Affiliated ..... ~~4099999~~5199999

All Other Tax Credit Investments

Unaffiliated ..... ~~4199999~~5299999

Affiliated ..... ~~4299999~~5399999

Working Capital Finance Investment

Unaffiliated ..... ~~4399999~~5499999

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Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Bonds

Unaffiliated ..... ~~4499999~~5599999

Affiliated ..... ~~4599999~~5699999

Preferred Stock

Unaffiliated ..... ~~4699999~~5799999

Affiliated ..... ~~4799999~~5899999

Common Stock

Unaffiliated ..... ~~4899999~~5999999

Affiliated ..... ~~4999999~~6099999

Real Estate

Unaffiliated ..... ~~5099999~~6199999

Affiliated ..... ~~5199999~~6299999

Mortgage Loans

Unaffiliated ..... ~~5299999~~6399999

Affiliated ..... ~~5399999~~6499999

Other

Unaffiliated ..... ~~5499999~~6599999

Affiliated ..... ~~5599999~~6699999

Any Other Class of Assets

Unaffiliated ..... ~~5699999~~6799999

Affiliated ..... ~~5799999~~6899999

Subtotals

Unaffiliated ..... 786~~68~~99999

Affiliated ..... 796~~69~~99999

TOTALS ..... 807~~70~~99999



Collateral Loans

Include: Refer to *SSAP No. 21—Other Admitted Assets* for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21 shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Classify the collateral loan in accordance with the type of collateral held, such that if the loan was to default and the collateral was to be claimed by the reporting entity, where it would be captured (investment type by SSAP) as a directly-held investment. If more than one form of collateral secures the loan, classification should occur based on the primary collateral source. The all other collateral loan category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets.

- Backed by Mortgage Loans – collateral loans backed by mortgage loans that would be in scope of *SSAP No. 37—Mortgage Loans and SSAP No. 83—Mezzanine Real Estate Loans* if held directly.
- Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies – collateral loans backed by an investment that would be in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* if held directly.
- Backed by Residual Tranches or Interests – collateral loans backed by an investment that would be in scope of *SSAP No. 21—Other Admitted Assets* as a residual if held directly.
- Backed by Debt Securities – collateral loans backed by an investment that would be assessed under *SSAP No. 26—~~Issuer Credit Obligations~~Bonds* for bond reporting if held directly. This classification does not require confirmation that the debt security would qualify as a bond. Debt securities could be reported on either Schedule D if qualifying for reporting as a bond or Schedule BA if the investment is a non-bond debt security.
- Backed by Real Estate – collateral loans backed by an investment that would be captured in scope of *SSAP No. 40—Real Estate Investments* if held directly.
- Collateral Loans – ~~All Other~~Backed by Other Collateral Types – the Backed by Other Collateral Types subcategory shall include collateral loans not captured in any other collateral loan reporting line. All collateral loans secured by collateral that does not qualify under SSAP No. 21 are required to be nonadmitted unless supported by a prescribed or permitted practice disclosure.~~collateral loans not captured in the specific reporting lines.~~

Detail Eliminated To Conserve Space

SCHEDULE BA – PART 1

OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

**** Columns 21 through ~~26~~ 28 will be electronic only. ****

Column 26 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

Column 27 – Fair Value of Collateral Backing the Collateral Loan

Report the fair value of the collateral backing the collateral loan. Complete column only for Collateral Loans – Reported by Collateral that Secures the Loan.

Column 28 – Current Overcollateralization Percentage to the Collateral Loan

Report the current collateralization percentage from a comparison of the fair value of the collateral to the book/adjusted carrying value (BACV) of the collateral loan. For example, if the fair value of the collateral and the BACV agree, 100% shall be reported. If the fair value of the collateral is $120 and the BACV of the collateral loan is $150, 80% shall be reported. Complete column only for Collateral Loans – Reported by Collateral that Secures the Loan.

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

ASSET VALUATION RESERVE
EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

Detail Eliminated To Conserve Space

Line 89 – Mortgage Loans – Affiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 5599999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

**** Drafting Note – The section for Surplus Notes and Capital Notes was inadvertently left out with drafting this proposal so the lines needed to be renumbered.****

Lines ~~93~~100 through ~~104~~112 – Collateral Loans

Line ~~93~~100 – Backed by Mortgage Loans – Unaffiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3199999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~94~~101 – Backed by Mortgage Loans – Affiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3299999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~95~~102 – Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies – Unaffiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3399999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~96~~103 – Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies – Affiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3499999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~97~~104 – Backed by Residual Tranches or Interests – Unaffiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3599999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~98~~105 – Backed by Residual Tranches or Interests – Affiliated

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Report the book/adjusted carrying value of all Schedule BA assets in Line 3699999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~99~~106 – Backed by Debt Securities – Unaffiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3799999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~100~~107 – Backed by Debt Securities – Affiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3899999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~101~~108 – Backed by Real Estate – Unaffiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 3999999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~102~~109 – Backed by Real Estate – Affiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 4099999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~103~~110 – Collateral Loans – All Other – Unaffiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 4199999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~104~~111 – Collateral Loans – All Other – Affiliated

Report the book/adjusted carrying value of all Schedule BA assets in Line 4299999 in Columns 1 and 4. Multiply the amount in Column 4 by the reserve factors in Columns 5, 7 and 9. Report the products in Columns 6, 8 and 10, respectively.

Line ~~94~~ 113 & ~~95~~114 – Working Capital Finance Investments – *Detail Eliminated to Conserve Space*

Line ~~96~~115 – Other Invested Assets – Schedule BA – *Detail Eliminated to Conserve Space*

Line ~~97~~116 – Other Short-Term Invested Assets – Schedule DA – *Detail Eliminated to Conserve Space*

Line ~~98~~118 – Total Other Invested Assets – Schedules BA & DA – *Detail Eliminated to Conserve Space*

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QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

****Drafting Note*** - updates to the quarterly instructions were inadvertently left out during the initial draft. The quarterly instructions were updated for the March 2026 BWG call.*

SCHEDULE BA – PARTS 2 AND 3

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND DISPOSED OF

Detail Eliminated To Conserve Space

Collateral Loans – Reported by Collateral that Secures the Loan

Backed by Mortgage Loans

Unaffiliated 3199999

Affiliated 3299999

Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies

Unaffiliated 3399999

Affiliated 3499999

Backed by Residual Tranches or Interests

Unaffiliated 3599999

Affiliated 3699999

Backed by Debt Securities

Unaffiliated 3799999

Affiliated 3899999

Backed by Real Estate

Unaffiliated 3999999

Affiliated 4099999

Collateral Loans – ~~All Other~~Backed by Other Collateral Types

Unaffiliated 4199999

Affiliated 4299999

Non-collateral Loans

~~Unaffiliated~~Related Party Loans~~/Affiliated Loans~~ ..... ~~3399999~~4399999

~~Affiliated~~~~All Other Non-Collateral Loans~~Other Unaffiliated Loans ..... ~~3499999~~4499999

Affiliated Loans 4599999

Yield Guaranteed State Tax Credit Investments

Unaffiliated ..... ~~3599999~~4699999

Affiliated ..... ~~3699999~~4799999

Qualifying Federal Tax Credit Investments

Unaffiliated ..... ~~3799999~~4899999

Affiliated ..... ~~3899999~~4999999

Qualifying State Tax Credit Investments

Unaffiliated ..... ~~3999999~~5099999

Affiliated ..... ~~4099999~~5199999

All Other Tax Credit Investments

Unaffiliated ..... ~~4199999~~5299999

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Affiliated ..... ~~4299999~~5399999

Working Capital Finance Investment

Unaffiliated ..... ~~4399999~~5499999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Bonds

Unaffiliated ..... ~~4499999~~5599999

Affiliated ..... ~~4599999~~5699999

Preferred Stock

Unaffiliated ..... ~~4699999~~5799999

Affiliated ..... ~~4799999~~5899999

Common Stock

Unaffiliated ..... ~~4899999~~5999999

Affiliated ..... ~~4999999~~6099999

Real Estate

Unaffiliated ..... ~~5099999~~6199999

Affiliated ..... ~~5199999~~6299999

Mortgage Loans

Unaffiliated ..... ~~5299999~~6399999

Affiliated ..... ~~5399999~~6499999

Other

Unaffiliated ..... ~~5499999~~6599999

Affiliated ..... ~~5599999~~6699999

Any Other Class of Assets

Unaffiliated ..... ~~5699999~~6799999

Affiliated ..... ~~5799999~~6899999

Subtotals

Unaffiliated ..... 78~~68~~99999

Affiliated ..... 79~~69~~99999

TOTALS ..... 80~~70~~99999

Detail Eliminated To Conserve Space

Collateral Loans

Include: Refer to *SSAP No. 21—Other Admitted Assets* for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21 shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Classify the collateral loan in accordance with the type of collateral held, such that if the loan was to default and the collateral was to be claimed by the reporting entity, where it would be captured (investment type by SSAP) as a directly-held investment. If more than one form of collateral secures the loan, classification should occur based on the primary collateral source. The all other collateral loan

category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets.

- Backed by Mortgage Loans – collateral loans backed by mortgage loans that would be in scope of *SSAP No. 37—Mortgage Loans and SSAP No. 83—Mezzanine Real Estate Loans* if held directly.
- Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies – collateral loans backed by an investment that would be in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* if held directly.
- Backed by Residual Tranches or Interests – collateral loans backed by an investment that would be in scope of *SSAP No. 21—Other Admitted Assets* as a residual if held directly.
- Backed by Debt Securities – collateral loans backed by an investment that would be assessed under *SSAP No. 26—~~Issuer Credit Obligations~~Bonds* for bond reporting if held directly. This classification does not require confirmation that the debt security would qualify as a bond. Debt securities could be reported on either Schedule D if qualifying for reporting as a bond or Schedule BA if the investment is a non-bond debt security.
- Backed by Real Estate – collateral loans backed by an investment that would be captured in scope of *SSAP No. 40—Real Estate Investments* if held directly.
- Collateral Loans – ~~All Other~~Backed by Other Collateral Types – ~~collateral loans not captured in the specific reporting lines.~~the Backed by Other Collateral Types subcategory shall include collateral loans not captured in any other collateral loan reporting line. All collateral loans secured by collateral that does not qualify under SSAP No. 21 are required to be nonadmitted unless supported by a prescribed or permitted practice disclosure.

Detail Eliminated To Conserve Space

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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Desig-nation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK										
65		Unaffiliated Public		XXX	XXX		0.0000		0.1580(a)		0.1580(a)	
66		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
67		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
68		Affiliated Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
69		Affiliated Other - All Other		XXX	XXX		0.0000		0.1945		0.1945	
70		Total with Common Stock Characteristics (Sum of Lines 65 through 69)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE										
71		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
72		Investment Properties					0.0000		0.0912		0.0912	
73		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
74		Total with Real Estate Characteristics (Sum of Lines 71 through 73)					XXX		XXX		XXX	
		INVESTMENTS IN TAX CREDIT STRUCTURES										
75		Yield Guaranteed State Tax Credit Investments					0.0003		0.0006		0.0010	
76		Qualifying Federal Tax Credit Investments					0.0063		0.0120		0.0190	
77		Qualifying State Tax Credit Investments					0.0063		0.0120		0.0190	
78		Other Tax Credit Investments					0.0273		0.0600		0.0975	
79		Total Tax Credit Investments (Sum of Lines 75 through 78)					XXX		XXX		XXX	
		RESIDUAL TRANCHES OR INTERESTS										
80		Fixed Income Instruments – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
81		Fixed Income Instruments – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
82		Common Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
83		Common Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
84		Preferred Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
85		Preferred Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
86		Real Estate – Unaffiliated					0.0000		0.1580		0.1580	
87		Real Estate – Affiliated					0.0000		0.1580		0.1580	
88		Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
89		Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
90		Other – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
91		Other – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
92		Total Residual Tranches or Interests (Sum of Lines 80 through 91)					XXX		XXX		XXX	
		~~ALL OTHER INVESTMENTS~~										
~~93~~		~~NAIC 1 Working Capital Finance Investments~~		~~XXX~~			~~0.0000~~		~~0.0042~~		~~0.0042~~	
~~94~~		~~NAIC 2 Working Capital Finance Investments~~		~~XXX~~			~~0.0000~~		~~0.0137~~		~~0.0137~~	
~~95~~		~~Other Invested Assets - Schedule BA~~		~~XXX~~			~~0.0000~~		~~0.1580~~		~~0.1580~~	
~~96~~		~~Other Short-Term Invested Assets - Schedule DA~~		~~XXX~~			~~0.0000~~		~~0.1580~~		~~0.1580~~	
~~97~~		~~Total All Other (Sum of Lines 94, 95, 96 and 97)~~		~~XXX~~			~~XXX~~		~~XXX~~		~~XXX~~	
~~98~~		~~Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)~~					~~XXX~~		~~XXX~~		~~XXX~~	

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Desig-nation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		SURPLUS NOTES AND CAPITAL NOTES										
93	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
94	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
95	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
96	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
97	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
98	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
99		Total with Bond Characteristics (Sum of Lines 93 through 98)		XXX	XXX		XXX		XXX		XXX	
		COLLATERAL LOANS										
93100		Backed by Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
94101		Backed by Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
95102		Backed by Joint Ventures, Partnerships, & Limited Liability Companies – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
96103		Backed by Joint Ventures, Partnerships, & Limited Liability Companies – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
97104		Backed by Residual Tranches or Interests – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
98105		Backed by Residual Tranches or Interests – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
99106		Backed by Debt Securities – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
1079		Backed by Debt Securities – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
1081		Backed by Real Estate – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
1092		Backed by Real Estate – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
11003		Collateral Loans – All Other – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
11104		Collateral Loans – All Other – Affiliated					0.0000		0.0680		0.0680	
11205		Total Collateral Loans (Sum of Lines 100 through 111)					XXX		XXX		XXX	
		ALL OTHER INVESTMENTS										
93113		NAIC 1 Working Capital Finance Investments		XXX			0.0000		0.0042		0.0042	
94114		NAIC 2 Working Capital Finance Investments		XXX			0.0000		0.0137		0.0137	
95115		Other Invested Assets - Schedule BA		XXX			0.0000		0.1580		0.1580	
96116		Other Short-Term Invested Assets - Schedule DA		XXX			0.0000		0.1580		0.1580	
97117		Total All Other (Sum of Lines 94113, 95114, 96115 and 97116)		XXX			XXX		XXX		XXX	
98118		Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 7980, 923, 99, 112 and 11798)					XXX		XXX		XXX	

**** Drafting Note – The section for Surplus Notes and Capital Notes was inadvertently left out with drafting this proposal.****

ANNUAL STATEMENT BLANK – SEPARATE ACCOUNTS

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Desig-nation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK										
65		Unaffiliated Public		XXX	XXX		0.0000		0.1580(a)		0.1580(a)	
66		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
67		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
68		Affiliated Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
69		Affiliated Other - All Other		XXX	XXX		0.0000		0.1945		0.1945	
70		Total with Common Stock Characteristics (Sum of Lines 65 through 69)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE										
71		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
72		Investment Properties					0.0000		0.0912		0.0912	
73		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
74		Total with Real Estate Characteristics (Sum of Lines 71 through 73)					XXX		XXX		XXX	
		INVESTMENTS IN TAX CREDIT STRUCTURES										
75		Yield Guaranteed State Tax Credit Investments					0.0003		0.0006		0.0010	
76		Qualifying Federal Tax Credit Investments					0.0063		0.0120		0.0190	
77		Qualifying State Tax Credit Investments					0.0063		0.0120		0.0190	
78		Other Tax Credit Investments					0.0273		0.0600		0.0975	
79		Total Tax Credit Investments (Sum of Lines 75 through 78)					XXX		XXX		XXX	
		RESIDUAL TRANCHES OR INTERESTS										
80		Fixed Income Instruments – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
81		Fixed Income Instruments – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
82		Common Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
83		Common Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
84		Preferred Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
85		Preferred Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
86		Real Estate – Unaffiliated					0.0000		0.1580		0.1580	
87		Real Estate – Affiliated					0.0000		0.1580		0.1580	
88		Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
89		Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
90		Other – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
91		Other – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
92		Total Residual Tranches or Interests (Sum of Lines 81 through 92)					XXX		XXX		XXX	
		~~ALL OTHER INVESTMENTS~~										
~~93~~		~~NAIC 1 Working Capital Finance Investments~~		~~XXX~~			~~0.0000~~		~~0.0042~~		~~0.0042~~	
~~94~~		~~NAIC 2 Working Capital Finance Investments~~		~~XXX~~			~~0.0000~~		~~0.0137~~		~~0.0137~~	
~~95~~		~~Other Invested Assets - Schedule BA~~		~~XXX~~			~~0.0000~~		~~0.1580~~		~~0.1580~~	
~~96~~		~~Other Short-Term Invested Assets - Schedule DA~~		~~XXX~~			~~0.0000~~		~~0.1580~~		~~0.1580~~	
~~97~~		~~Total All Other (Sum of Lines 94, 95, 96 and 97)~~		~~XXX~~			~~XXX~~		~~XXX~~		~~XXX~~	
~~98~~		~~Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)~~					~~XXX~~		~~XXX~~		~~XXX~~	

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Desig-nation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		SURPLUS NOTES AND CAPITAL NOTES										
93	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
94	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
95	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
96	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
97	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
98	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
99		Total with Bond Characteristics (Sum of Lines 93 through 98)		XXX	XXX		XXX		XXX		XXX	
		COLLATERAL LOANS										
~~93~~100		Backed by Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~94~~101		Backed by Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~95~~102		Backed by Joint Ventures, Partnerships, & Limited Liability Companies – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~96~~103		Backed by Joint Ventures, Partnerships, & Limited Liability Companies – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~97~~104		Backed by Residual Tranches or Interests – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~98~~105		Backed by Residual Tranches or Interests – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~99~~106		Backed by Debt Securities – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~100~~107		Backed by Debt Securities – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~101~~108		Backed by Real Estate – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
~~102~~109		Backed by Real Estate – Affiliated		XXX	XXX		0.0000		0.0680		0.0680	
110~~03~~		Collateral Loans – All Other – Unaffiliated		XXX	XXX		0.0000		0.0680		0.0680	
111~~04~~		Collateral Loans – All Other – Affiliated					0.0000		0.0680		0.0680	
112~~05~~		Total Collateral Loans (Sum of Lines 93 through 104)					XXX		XXX		XXX	
		ALL OTHER INVESTMENTS										
~~93~~113		NAIC 1 Working Capital Finance Investments		XXX			0.0000		0.0042		0.0042	
~~94~~114		NAIC 2 Working Capital Finance Investments		XXX			0.0000		0.0137		0.0137	
~~95~~115		Other Invested Assets - Schedule BA		XXX			0.0000		0.1580		0.1580	
~~96~~116		Other Short-Term Invested Assets - Schedule DA		XXX			0.0000		0.1580		0.1580	
~~97~~117		Total All Other (Sum of Lines ~~94~~113, ~~95~~114, ~~96~~115 and ~~97~~116)		XXX			XXX		XXX		XXX	
~~98~~118		Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, ~~79~~80, ~~97~~3, 99, 112 and 117~~98~~)					XXX		XXX		XXX	

*** *Drafting Note – The section for Surplus Notes and Capital Notes was inadvertently left out with drafting this proposal.****
https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2h-2024-19bwg_modified.docx

Attachment Two-I
Accounting Practices and Procedures (E) Task Force
3/25/25

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 10/16/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2024-20BWG MOD
TELEPHONE:	Year 2025
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Jenn Webb	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: NOLHGA's Chief of Staff	No Impact [X]
AFFILIATION: NOLHGA and NCIGF	Modifies Required Disclosure [ ]
ADDRESS:	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO]
	****If Yes, complete question below****
	DISPOSITION
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[X] Received For Public Comment
	[ ] Adopted Date
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Add electronic only contact information field to the annual and quarterly Jurat page for the Guaranty Association Assessment Contact.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is add an assessment contact to the Jurat page so members can contact insurers about Guaranty Association operations (Class A Assessments) and for specific insolvencies (Class B Assessments).

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH, & TITLE

JURAT PAGE

Enter all information completely as indicated by the format of the page.

Detail Eliminated To Conserve Space

To be filed in electronic format only:

**** Reporting Note: This new electronic contact will be added after the last electronic contact (Qualified Actuary Contact 3) in the instructions.****

Guaranty Association Assessment Contact (Not applicable to Title and Fraternal companies, unless otherwise provided by state law)

Name

List the name of the person responsible for managing and paying state Guaranty Association assessments (i.e., Class A Administrative Assessments, Class B Insolvency Specific Assessments, and other Assessments as applicable).

Address

May be a P.O. Box and the associated ZIP code.

Telephone Number

Telephone number should include area code and extension.

Email Address

Email address of the contact person as described above, or shared email inbox if applicable.

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QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH, & TITLE

JURAT PAGE

Enter all information completely as indicated by the format of the page.



To be filed in electronic format only:

**** Reporting Note: This new electronic contact will be added after the last electronic contact (Life Experience Data Contact) in the instructions.****

Assessment Contact (Not applicable to Title and Fraternal companies)

Name

List the name of the person responsible for managing and paying state Guaranty Association assessments (i.e., Class A Administrative Assessments, Class B Insolvency Specific Assessments, and other Assessments as applicable).

Address

May be a P.O. Box and the associated ZIP code.

Telephone Number

Telephone number should include area code and extension.

Email Address

Email address of the contact person as described above, or shared email inbox if applicable.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2i-2024-20bwg_modified.docx

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 12/17/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-21BWG
TELEPHONE:		Year 2025
EMAIL ADDRESS:		Changes to Existing Reporting [X]
ON BEHALF OF:		New Reporting Requirement [ ]
NAME:	Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE:	Chair SAPWG	No Impact [X] Modifies Required Disclosure [ ]
AFFILIATION:	Ohio Department of Insurance	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO] ****If Yes, complete question below****
ADDRESS:	50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215	**DISPOSITION** [ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [X] Received For Public Comment [ ] Adopted Date [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025 / 1st Quarter 2026

IDENTIFICATION OF ITEM(S) TO CHANGE

Update Schedule D, Part 4 and Part 5 instructions to add clarifying instructions on what should be included on the investment schedule.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

SAPWG agenda item 2024-16 adds clarifying language to the annual and quarterly statement instructions to clarify that the sale of the security that is reacquired with different terms shall be reported as a sale on Schedule D, Part 4 and a new acquisition on Schedule D, Part 3.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

**** This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, HEALTH, & TITLE

SCHEDULE D – PART 4

LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING CURRENT YEAR

This schedule should include a detailed listing of all securities that were sold/disposed of during the current reporting year that were owned as of the beginning of the current reporting year (amounts purchased and sold during the current reporting year are reported in detail on Schedule D, Part 5 and only in subtotal in Schedule D, Part 4). This should include all transactions that adjust the cost basis of the securities (except other-than-temporary impairments that are not part of a disposal transaction). ~~Thus, it~~This schedule should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or ~~other~~ situations ~~such as~~that only involve CUSIP number changes. The following list of items provides examples (not all inclusive) of the items that should be included:

Pay downs of securities still owned (including CMO prepayments);

Subsequent partial sales of investment issues still owned;

Sales of securities to an SPV or other entity for which a new instrument is reacquired from the SPV/entity reflecting a combined instrument containing the original security and derivative instruments or other components (such as a credit repack note). The sale shall be captured on this schedule (or Schedule D, Part 5 if the debt security was acquired in the current year), and the new security shall be reported on Schedule D, Part 3.

Reallocation of the cost basis of an already owned stock to the cost basis of a new stock received as a dividend (e.g., spin off); and

Any decreases in the investments in SCA companies that adjust the cost basis, not including other-than-temporary impairments alone (e.g., subsequent return of capital from investments in SCA companies valued using the equity method).

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SCHEDULE D – PART 5

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE YEAR AND FULLY DISPOSED OF DURING CURRENT YEAR

This schedule should include a detailed listing of all securities that were both purchased/acquired and sold/disposed of during the current reporting year (amounts purchased and sold during the current reporting year are also reported in subtotals in Schedule D, Parts 3 and 4).

Reporting entities should track information separately for securities purchased in different lots rather than using some type of averaging for the issue in aggregate. Thus, this schedule should only be used when an entire lot of a security has been purchased and sold during the current reporting year (even when different lots of the same security still exist on the reporting entity's books).

As with Schedule D, Parts 3 and 4, this schedule should ~~not~~ be used for ~~a~~ transaction[s] ~~unless it~~[that] affect~~s~~ the cost basis of the securities. ~~Thus, it~~[This schedule] should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or ~~other~~ situations ~~such as~~[that only involve] CUSIP number changes. [Refer to the examples on Schedule D, Part 4 of transactions that should be captured.]

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QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, HEALTH, & TITLE

SCHEDULE D – PART 4

LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING THE CURRENT QUARTER

This schedule should include a detail listing of all securities that were sold/disposed of during the current quarter that were owned as of the beginning of the current quarter. Detailed information for investments that are acquired and disposed of during the current reporting quarter should be included in this schedule and in Schedule D, Part 3. Note that this is not a detailed listing of items for the Year-to-Date. This should include all transactions that adjust the cost basis of the securities (except other-than-temporary impairments that are not part of a disposal transaction). ~~Thus, it~~This schedule should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3, or ~~other~~ situations ~~such as~~that only involve CUSIP number changes. The following list of items provides examples (not all inclusive) of the items that should be included:

Pay downs of securities still owned (including CMO prepayments);

Subsequent partial sales of investment issues still owned;

Sales of securities to an SPV or other entity for which a new instrument is reacquired from the SPV/entity reflecting a combined instrument containing the original security and derivative instruments or other components (such as a credit repack note). The sale shall be captured on this schedule (or Schedule D, Part 5 if the debt security was acquired in the current year), and the new security shall be reported on Schedule D, Part 3.

Reallocation of the cost basis of an already owned stock to the cost basis of a new stock received as a dividend (e.g., spin off); and

Any decreases in the investments in SCA companies that adjust the cost basis, not including other-than-temporary impairments (e.g., subsequent return of capital from investments in SCA companies valued using the equity method).

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 12/17/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-22BWG
TELEPHONE:		Year 2025
EMAIL ADDRESS:		Changes to Existing Reporting [X]
ON BEHALF OF:		New Reporting Requirement [ ]
NAME:	Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE:	Chair SAPWG	No Impact [X] Modifies Required Disclosure [ ]
AFFILIATION:	Ohio Department of Insurance	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO] ****If Yes, complete question below****
ADDRESS:	50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215	**DISPOSITION** [ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [X] Received For Public Comment [ ] Adopted Date [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2025 / 1st Quarter 2026

IDENTIFICATION OF ITEM(S) TO CHANGE

Update Schedule BA definitions for Surplus Debentures and Capital Notes to add clarification on what should be reported in these categories.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

SAPWG agenda item 2024-28 adds clarifying language to the annual and quarterly statement instructions to incorporate the changes to *SSAP No. 41 – Surplus Notes* to clarify capital notes references and guidance.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY/CASUALTY, HEALTH, & TITLE

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS

Detail Eliminated To Conserve Space

Surplus Notes

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness, that qualifies as a surplus note pursuant to *SSAP No. 41—Surplus Notes*, that is reported in the surplus of the issuer.

Capital Notes

Include: This reporting line shall be utilized for held debt securities, that do not qualify as issued surplus notes pursuant to *SSAP No. 41—Surplus Notes*, that are treated as regulatory capital by the issuer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default. ~~The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.~~

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SCHEDULE BA – PARTS 2 AND 3

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND DISPOSED OF

Detail Eliminated To Conserve Space

Surplus Notes

Include:	That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness, that qualifies as a surplus note pursuant to *SSAP No. 41—Surplus Notes*, that is reported on the surplus.

Capital Notes

Include:	This reporting line shall be utilized for held debt securities, that do not qualify as issued surplus notes pursuant to *SSAP No. 41—Surplus Notes*, that are treated as regulatory capital by the issuer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default. ~~The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.~~

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2k-2024-22bwg.docx

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Debbie Doggett, Chair, Blanks (E) Working Group

FROM: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group

DATE: Dec. 2, 2024

RE: Inactive Lloyds Syndicates

This memo addresses questions regarding Lloyd's inactive syndicate numbers that have been removed from the NAIC's *Listing of Companies*. In 2024, over 200 inactive Lloyd's syndicates were removed from the NAIC's *Listing of Companies*. These inactive syndicates have been closed and their liabilities transferred to other existing Lloyd's syndicates through "reinsurance to close" transactions. A "reinsurance to close" transaction is a reinsurance agreement where members of a syndicate, for a year of account to be closed, are reinsured by members of either the same or another syndicate for a later year of account for all liabilities arising out of (re)insurance business written by the reinsured syndicate. Lloyd's maintains a "reinsurance to close" spreadsheet on their website, which identifies the current syndicate responsible for the prior inactive syndicate responsibilities by party and year of account.

All companies reporting reinsurance with any Lloyd's syndicates in Schedule S for life and health companies or Schedule F for P&C and title, should verify that the syndicate is still included on the NAIC *Listing of Companies*. If it is not, the respective NAIC company code for the Lloyd's syndicate that has assumed the liabilities may be obtained by using the "reinsurance to close" cross-reference guide to find the correct updated syndicate for reporting.

This information is being provided to assist annual statement preparers in identifying the current syndicate for their 2024 year-end filing.

Please reach out to NAIC staff Jake Stultz (jstultz@naic.org) and Robin Marcotte (rmarcotte@naic.org) if you have any questions.

cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

www.naic.org

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Debbie Doggett, Chair of the Blanks (E) Working Group
Steve Drutz, Vice Chair of the Blanks (E) Working Group

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Re: Year-End 2024 Impacts to the Annual Statement Notes and Instructions

Date: January 8, 2025

The purpose of this memo is to notify the Blanks (E) Working Group of revisions to the "Notes to Financial Statements" and annual statement instructions that have been adopted by the Statutory Accounting Principles (E) Working Group. As the items have already been adopted, and SSAPs and interpretations represent the first and the second level of authoritative guidance as promulgated by the Preamble, these revisions to the financial statement notes and instructions for 2024 reporting do not require approval from the Blanks (E) Working Group.

It is recommended that this memo detailing changes to existing reporting instructions and 2024 year-end disclosure requirements be posted to the NAIC website. This is consistent with the *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual, and the Annual Statement Blank* located within the *Accounting Practices & Procedures Manual*. A summary of the adopted revisions is provided below. Excerpts from the two agenda items reflecting disclosure revisions are included on the following pages; however, the full adopted revisions can be found on the Statutory Accounting Principles (E) Working Group web page under the documents tab at https://content.naic.org/cmte_e_app_sapwg.htm.

1. Ref #2023-26: ASU 2023-06, Disclosure Improvements - Adopted and effective August 13, 2024:

Adopted revisions, to *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* require the following summarized disclosures, which are further detailed on the following pages:

- The reporting entity shall separately disclose certain details for both short-term and long-term unused commitments and lines of credit.
- The reporting entity shall disclose its accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flow.

2. Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures - Adopted and effective November 17, 2024

Adopted revisions, to reject *ASU 2023-09 Improvements to Income Tax Disclosures in SSAP No. 101—Income Taxes* and delete the disclosure detailed in SSAP No. 101, paragraph 23.b. as this disclosure is no longer relevant due to changes in federal tax law. The adopted disclosure revisions are shown on the following pages.

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1. Ref #2023-26: ASU 2023-06, Disclosure Improvements – Adopted and effective August 13, 2024:

Adopted Revisions to *SSAP No. 15—Debt and Holding Company Obligations*

22. For unused commitments and lines of credit, the reporting entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:

a. The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).

~~a.~~b. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

Adopted Revisions to *SSAP No. 86—Derivatives*

Disclosure Requirements

63. Reporting entities shall disclose the following for all derivative contracts used:

a. General disclosures:

i. A description of the reporting entity's objectives for using derivatives, i.e., hedging, income generation or replication;

ii. A description of the context needed to understand those objectives and its strategies for achieving those objectives;

iii. The description for hedging objectives shall identify the category, e.g., fair value hedges, cash flow hedges, or foreign currency hedges, and for all objectives, the type of instrument(s) used;

iv. A description of the accounting policies for derivatives including the policies for recognizing (or reasons for not recognizing) and measuring the derivatives used, and when recognized, where those instruments and related gains and losses are reported;

v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);

vi. The net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness; ~~and~~

vii. The net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach; and

~~vii.~~viii. The reporting entity shall disclose its accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flow.

2. Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures – Adopted and effective Nov. 17, 2024

Adopted revisions, to reject *ASU 2023-09 Improvements to Income Tax Disclosures in SSAP No. 101—Income Taxes* and delete the disclosure detailed in SSAP No. 101, paragraph 23.b. as this disclosure is no longer relevant due to changes in federal tax law. The adopted disclosure revisions are shown below:

Disclosures

23. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:

a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;

~~b. The cumulative amount of each type of temporary difference;~~

~~c.~~b. The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable; and

~~d.~~c. The amount of the DTL for temporary differences other than those in paragraph 23.b~~c~~. that is not recognized in accordance with the provisions of paragraphs 31 of FAS 109.

Please contact NAIC staff Julie Gann (jgann@naic.org), Robin Marcotte (rmarcotte@naic.org), Jake Stultz (jstultz@naic.org); Wil Oden (woden@naic.org); or Jason Farr (jfarr@naic.org) if you have any questions.

Cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr

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Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented at the March 6, 2025, Meeting)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2025	Five Year Historical	**CHANGE TO INSTRUCTION** Update the Total Investment in Parent Line number due to Line 29 being removed in adopted proposal 2024-02BWG. Line ~~33~~ 32 – Total Investment in Parent Report the amount of investments reported in Lines 26 to ~~31~~ 30 above that are in an immediate or indirect parent.	H	Annual
2025	Five Year Historical	**CHANGE TO BLANK** Update the Line numbers below the removed Line 29 from adopted proposal 2024-02BWG. ~~30~~29. Affiliated mortgage loans on real estate ~~31~~30. All other affiliated ~~32~~31. Total of above Lines 26 to ~~31~~30 ~~33~~32. Total investment in parent included in Lines 26 to ~~31~~ 30 above.	H	Annual
2025	Five Year Historical	**CHANGE TO INSTRUCTION** Update the Total Investment in Parent Line number due to Line 47 being removed in adopted proposal 2024-02BWG. Line ~~51~~ 50 – Total Investment in Parent Report the amount of investments reported in Lines 44 to ~~49~~ 48 above that are in an immediate or indirect parent. *** Renumber remaining lines in instructions***	L/F	Annual

Effective	Table Name	Description	Statement Type	Filing Type
2025	Five Year Historical	**CHANGE TO BLANK** Update the Line numbers below the removed Line 47 from adopted proposal 2024-02BWG. ~~48~~47. Affiliated mortgage loans on real estate ~~49~~48. All other affiliated ~~50~~49. Total of above Lines 44 to ~~49~~48 ~~51~~50. Total investment in parent included in Lines 44 to ~~49~~ 48 above *** Renumber remaining lines in blank***	L/F	Annual
2025	Five Year Historical	**CHANGE TO INSTRUCTION** Update the Total Investment in Parent Line number due to Line 45 being removed in adopted proposal 2024-02BWG. Line ~~49~~ 48 – Total Investment in Parent Report the amount of investments reported in Lines 42 to ~~47~~ 46 above that are in an immediate or indirect parent. *** Renumber remaining lines in instructions***	P/C	Annual
2025	Five Year Historical	**CHANGE TO BLANK** Update the Line numbers below the removed Line 45 from adopted proposal 2024-02BWG. ~~46~~45. Affiliated mortgage loans on real estate ~~47~~46. All other affiliated ~~48~~47. Total of above Lines 42 to ~~47~~46 ~~49~~48. Total investment in parent included in Lines 42 to ~~47~~ 46 above ~~50~~49. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line ~~48~~ 47 above divided by Page 3, Col. 1, Line 37 x 100.0) *** Renumber remaining lines in blank***	P/C	Annual

Effective	Table Name	Description	Statement Type	Filing Type
2025	Five Year Historical	**CHANGE TO INSTRUCTION** Update the Total Investment in Parent Line number due to Line 41 being removed in adopted proposal 2024-02BWG. Line ~~45~~ 44 – Total Investment in Parent Report the amount of investments reported in Lines 38 to ~~43~~ 42 above that are in an immediate or indirect parent. *** Renumber remaining lines in instructions***	T	Annual
2025	Five Year Historical	**CHANGE TO BLANK** Update the Line numbers below the removed Line 41 from adopted proposal 2024-02BWG. ~~42~~41. Affiliated mortgage loans on real estate ~~43~~42. All other affiliated ~~44~~43. Total of above Lines 38 to ~~44~~43 ~~45~~44. Total investment in parent included in Lines 38 to ~~44~~ 43 above ~~46~~45. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line ~~45~~ 44 above divided by Page 3, Line 32, Col. 1 x 100.0) *** Renumber remaining lines in blank***	T	Annual
2025	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Update the Illustration for Line 21F3 to match the Instruction updates for Note 21 – Other Items in adopted proposal 2023-06BWG. (3) Direct exposure through other investments. a. ~~Residential mortgage~~Asset-backed securities ~~b. Commercial mortgage-backed securities~~ ~~e~~b. Collateralized debt obligations ~~d. Structured securities~~ ~~e~~c. Equity investment in SCAs * ~~f~~.d Other assets ~~g~~e. Total (a+b+c+d~~+e+f~~)	H, L/F, P/C, T	Annual

<table>
<tr><th>Effective</th><th>Table Name</th><th>Description</th><th>Statement Type</th><th>Filing Type</th></tr>
<tr><td>2025</td><td>Notes to Financial Statements</td><td>CHANGE TO INSTRUCTION
Update Note 21E(2) Illustration. The Total lines were not showing correctly in the instructions.

(2)Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable;

<table>
<tr><th>Jurisdiction*</th><th>Transferable / Certificated</th><th>Nontransferable</th><th>Total</th></tr>
<tr><td>a. State</td><td></td><td></td><td></td></tr>
<tr><td>.....</td><td>.....</td><td>.....</td><td>.....</td></tr>
<tr><td>.....</td><td>.....</td><td>.....</td><td>.....</td></tr>
<tr><td>a. Total</td><td>~~Total~~ XXX</td><td>~~XXX~~</td><td>~~XXX~~</td><td>~~XXX~~</td></tr>
<tr><td>b. Federal</td><td>XXX</td><td>.....</td><td>.....</td><td>.....</td></tr>
<tr><td>c. Total (a+b)</td><td>XXX</td><td>~~XXX~~</td><td>~~XXX~~</td><td>~~XXX~~</td></tr>
</table>

* Only applicable to State section of table</td><td>H, L/F, P/C, T</td><td>Annual</td></tr>
<tr><td>2025</td><td>Notes to Financial Statements</td><td>CHANGE TO INSTRUCTION
Add back the Explanation of Adjustments for Note 24E(3) for Life and Health and Note 24F(3) for Property. Lines A and B were inadvertently removed with proposal 2024-10BWG

(3) Roll-forward of prior year ACA risk-sharing provisions for the following asset (gross of any nonadmission) and liability balances, along with the reasons for adjustments to prior year balance.

<table>
<tr><th></th><th colspan="2">Accrued During the Prior Year on Business Written Before Dec 31 of the Prior Year</th><th colspan="2">Received or Paid as of the Current Year on Business Written Before Dec 31 of the Prior Year</th><th colspan="2">Differences</th><th></th></tr>
<tr><th></th><th></th><th></th><th></th><th></th><th>Prior Year Accrued Less Payments (Col 1 - 3)</th><th>Prior Year Accrued Less Payments (Col 2 - 4)</th><th>To Prior Y Balance</th></tr>
<tr><td></td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr>
<tr><td></td><td>Receivable</td><td>(Payable)</td><td>Receivable</td><td>(Payable)</td><td>Receivable</td><td>(Payable)</td><td>Receivat</td></tr>
<tr><td>a. Permanent ACA Risk Adjustment Program</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>1. Premium adjustments receivable (including high-risk pool payments)</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td></tr>
<tr><td>2. Premium adjustments (payable) (including high-risk pool premium)</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td></tr>
<tr><td>3. Subtotal ACA Permanent Risk Adjustment Program</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td><td>$ .....</td></tr>
</table>

Explanations of Adjustments

A
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B
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.....</td><td>H, L/F, P/C</td><td>Annual</td></tr>
</table>

Effective	Table Name	Description	Statement Type	Filing Type
2025	General Interrogatories Part 2	**CHANGE TO BLANK** Add a total line for the Fraternal interrogatory #37.2 to capture the total if a fraternal would exist much past doing a second lien. 37.2 If yes, what is the date of the original lien and the total outstanding balance of liens that remain in surplus? Date | Outstanding Lien Amount | $ | $ | $ Total |	L/F	Annual
2025	General Interrogatories Part 1	**CHANGE TO BLANK** Add N/A as a possible response to lines 29.0597 and 29.0598 as the question only applies to unaffiliated investment advisors. There needs to be a response for affiliated and internal advisors. 29.0597 For those firms/individuals listed in the table for Question 29.05, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") manage more than 10% of the reporting entity's invested assets? Yes [ ] No [ ] N/A [ ] 29.0598 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 29.05, does the total assets under management aggregate to more than 50% of the reporting entity's invested assets? Yes [ ] No [ ] N/A [ ]	H, L/F, P/C, T	Annual
2025	Asset Valuation Reserve, Equity and Other Invested Asset Component	**CHANGE TO BLANK** Update the Description Section Header and the Total line for lines 93 to 99 ~~INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF~~ SURPLUS NOTES AND CAPITAL NOTES Highest Quality High Quality Medium Quality Low Quality Lower Quality In or Near Default Total ~~with Bond Characteristics~~Surplus Notes and Capital Notes (Sum of Lines 93 through 98)	L/F, SA	Annual

Effective	Table Name	Description	Statement Type	Filing Type
2025	Asset Valuation Reserve	**CHANGE TO INSTRUCTION** Update the Description Section Header for lines 93 to 99. Lines 93 through 99 – ~~Other Invested Assets with Underlying Characteristics of~~ Surplus Notes and Capital Notes Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to surplus notes and capital notes in Columns 1 and 4. Use the Credit Rating Provider (CRP) rating to categorize these assets as if the SVO had assigned an NAIC designation of 1 through 6. If no CRP rating, then report based on the reporting entity's assumption of credit risk. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.	L/F, SA	Annual
2025	Schedule D, Part 1 - Section 1 & 2, Part 2 – Section 1, Part 3, 4, & 5	**CHANGE TO INSTRUCTION** Update the list of SVO Administrative symbols for Bonds and Preferred Stock to include all the valid symbols in the Purposes and Procedures Manual of the NAIC Investment Analysis Office Following are valid SVO Administrative Symbols for bonds. Refer to the P&P Manual for the application of these symbols. FE Filing Exempt FM Financially Modeled RMBS/CMBS subject to SSAP 43 YE Year-end carry over IF Initial filing PL Private Letter Rating PLGI Private Letter Rating – General Interrogatory RT Regulatory Transaction RTS Regulatory Transaction - SVO Reviewed	H, L/F, P/C, T, SA	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		RTIF Regulatory Transaction - Initial Filing Submitted to SVO RTSYE Regulatory Transaction - SVO Reviewed - Year-end carry over RTSZ Regulatory Transaction - SVO Reviewed – Self Designated GI General Interrogatory F Sub-paragraph D Company – insurer self-designated Z Insurer self-designated * Limited to NAIC Designations 6 Z* Regulatory review initiated by either the SVO Director, Financial Condition (E) Committee, Executive (EX) Committee or VOSTF. ND* Regulatory review for an assessment of regulatory policy for the investment or regulatory reporting instructions to implement applicable policy.		
2025	Country of Domicile – Appendix of Abbreviations	**CHANGE TO INSTRUCTION** Update the appendix of abbreviations to add the country Kosovo. KOR – Korea, Republic of XKX – Kosovo KWT – Kuwait	H, L/F, P/C, T	Annual
2025	Exhibit of Life Insurance – Basis of Calculation of Ordinary Term Insurance	**CHANGE TO BLANK** Change reference of "wife" to "spouse" in the Basis of Calculation of Ordinary Term Insurance section. 47. State basis of calculation of (47.1) decreasing term insurance contained in Family Income, Mortgage Protection, etc., policies and riders and of (47.2) term insurance on ~~wife~~ spouse and children under Family, Parent and Children, etc., policies and riders included above.	L/F	Annual

2025	Notes to Financial Statement	**CHANGE TO INSTRUCTION** ~~Update Note 7C to reference "investment income" instead of "interest income". This should have been investment income and it was inadvertently missed when working on publications~~Update Note 7 to clarify between which parts of the note should be reported for investment income due and accrued or for interest income due and accrued. **7. Investment Income** Instruction: ~~Disclose the following for investment income due and accrued in the financial statements~~The following disclosures shall be made for investment income due and accrued (7A and 7B) or for interest income due and accrued (7C, 7D, and 7E): A. The bases, by category of investment income, for excluding (nonadmitting) any investment income due and accrued, B. The total amount excluded. C. The gross, nonadmitted and admitted amounts for interest ~~investment~~ income due and accrued. (1) Gross amount for interest ~~investment~~ income due and accrued. (Should equal Assets Page, Line 14, Column 1) (2) Nonadmitted amount for interest ~~investment~~ income due and accrued. (Should equal Assets Page, Line 14, Column 2) (3) Admitted amount for interest ~~investment~~ income due and accrued. (Should equal Assets Page, Line 14, Column 3) D. The aggregate deferred interest. Some investments allow for interest payments to be deferred past the originally scheduled payment date without being considered past due under the agreement terms. Include the amount of interest reported as due and accrued for which the reporting entity has not received within 90 days of the originally scheduled payment date, that has not been nonadmitted under *SSAP No. 34—Investment Income Due and Accrued*. For the avoidance of doubt, this should also include all accrued interest for investments that pay interest in full less frequently than annually per the agreement terms.	H, L/F, P/C, T	Annual

<table>
<tr><th>Effective</th><th>Table Name</th><th>Description</th><th>Statement Type</th><th>Filing Type</th></tr>
<tr><td></td><td></td><td>E. The cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

Include the amount of reported interest in which the terms of the investment permit paid-in-kind (PIK) instead of cash. The amount captured shall reflect the cumulative amount of PIK interest included in the current principal balance.</td><td></td><td></td></tr>
<tr><td>2026</td><td>General Interrogatories Part 2</td><td>CHANGE TO BLANK

Add a total line for the Fraternal interrogatory #6.2 to capture the total if a fraternal would exist much past doing a second lien.

6.2 If yes, what is the date of the original lien and the total outstanding balance of liens that remain in surplus?

<table><tr><th>Date</th><th>Outstanding Lien Amount</th></tr><tr><td></td><td>$</td></tr><tr><td></td><td>$</td></tr><tr><td></td><td>$</td></tr><tr><td>Total</td><td></td></tr></table></td><td>L/F</td><td>Quarterly</td></tr>
<tr><td>2026</td><td>General Interrogatories Part 1</td><td>CHANGE TO BLANK

Add N/A as a possible response to lines 17.0597 and 17.0598 as the question only applies to unaffiliated investment advisors. There needs to be a response for affiliated and internal advisors.

17.0597 For those firms/individuals listed in the table for Question 29.05, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) manage more than 10% of the reporting entity’s invested assets? Yes [ ] No [ ] N/A [ ]
17.0598 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a “U”) listed in the table for Question 29.05, does the total assets under management aggregate to more than 50% of the reporting entity’s invested assets? Yes [ ] No [ ] N/A [ ]</td><td>H, L/F, P/C, T</td><td>Quarterly</td></tr>
</table>

2026	Schedule D, Part 3 & 4	**CHANGE TO INSTRUCTION** Update the list of SVO Administrative symbols for Bonds and Preferred Stock to include all the valid symbols in the Purposes and Procedures Manual of the NAIC Investment Analysis Office Following are valid SVO Administrative Symbols for bonds. Refer to the P&P Manual for the application of these symbols. FE — Filing Exempt FM — Financially Modeled RMBS/CMBS subject to SSAP 43 YE — Year-end carry over IF — Initial filing PL — Private Letter Rating PLGI — Private Letter Rating – General Interrogatory RT — Regulatory Transaction RTS — Regulatory Transaction - SVO Reviewed RTIF — Regulatory Transaction - Initial Filing Submitted to SVO RTSYE — Regulatory Transaction - SVO Reviewed - Year-end carry over RTSZ — Regulatory Transaction - SVO Reviewed – Self Designated GI — General Interrogatory F — Sub-paragraph D Company – insurer self-designated Z — Insurer self-designated * — Limited to NAIC Designations 6 Z* — Regulatory review initiated by either the SVO Director, Financial Condition (E) Committee, Executive (EX) Committee or VOSTF. ND* — Regulatory review for an assessment of regulatory policy for the investment or regulatory reporting instructions to implement applicable policy.	H, L/F, P/C, T, SA	Quarterly

Effective	Table Name	Description	Statement Type	Filing Type
2026	Schedule B Verification Between Years	**CHANGE TO INSTRUCTION** Update the line reference in the instructions for Line 6 to match the correct column listed on the quarterly blank. Line 6 – Total Gain (Loss) on Disposal Report the gain (loss) on disposal of mortgages on a year-to-date basis including the total gain (loss) of mortgages in the current quarter as reported on Schedule B, Part 3, Column ~~17~~18.	H, L/F, P/C, T, SA	Quarterly
2026	Schedule A, Verification Between Years	**CHANGE TO BLANK** Update the crosscheck references for Line 9 and 11 to be the correct line references 9. Book/adjusted carrying value at end of current period (Lines 1+2+3+4~~+~~ 5+6-7-8~~+9-10~~) 10. Deduct total nonadmitted amounts 11. Statement value at end of current period (Line ~~11~~ 9 minus Line ~~12~~10)	H, L/F, P/C, T	Quarterly

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2025spring/minutes and summary/bwg/att 2m-blanks editorial changes march 2025.docx

CAPITAL ADEQUACY (E) TASK FORCE

Capital Adequacy (E) Task Force March 25, 2025, Minutes 9-599
Capital Adequacy (E) Task Force Feb. 4, 2025, Minutes (Attachment One) 9-604
Health Risk-Based Capital (E) Working Group March 24, 2025, Minutes (Attachment Two) 9-605
Health Risk-Based Capital (E) Working Group July 25, 2024, Minutes (Attachment Two-A) 9-609
2024 Health Risk-Based Capital (RBC) Newsletter (Attachment Two-A1) 9-611
2023 Health RBC Statistics (Attachment Two-A2) 9-614
Presentation from the American Academy of Actuaries (Academy) on the H2—Underwriting Risk Report (Attachment Two-B) 9-615
Life Risk-Based Capital (E) Working Group March 24, 2025, Minutes (Attachment Three) 9-629
Life Risk-Based Capital (E) Working Group Feb. 21, 2025, Minutes (Attachment Three-A) 9-634
Comment Letter from the American Council of Life Insurers (ACLI) Regarding LRBC October 2024 Exposures (Attachment Three-A1) 9-636
Comment Letter from Advantage Capital Regarding RBC Charge for Qualified Guaranteed Federal Tax Credit Transactions (2024-21-L) (Attachment Three-A2) 9-639
2024-21-L MOD (Tax Credit Investments) (Attachment Three-A3) 9-640
Proposal 2024-24-L MOD (Principle-Based Bond Definition Project) (Attachment Three-A4) 9-650
Comment Letter from Pacific Life Regarding Proposal 2024-24-L MOD (Principle-Based Bond Definition Project) (Attachment Three-A5) 9-688
Proposal 2025-01-L (C-2 Mortality Risk) (Attachment Three-A6) 9-693
Proposal 2025-05-L (Asset Concentration—LR010) (Attachment Three-A7) 9-695
Referral from Generator of Economic Scenarios (GOES) (E/A) Subgroup (Attachment Three-B) 9-700
Presentation from the Academy on C-3 Alignment (Attachment Three-C) 9-701
Proposal 2025-04-L (Other Long-Term Assets—LR008) (Attachment Three-D) 9-733
Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup March 24, 2025, Joint Minutes (Attachment Four) 9-747
Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup Feb. 18, 2025, Minutes (Attachment Four-A) 9-750
Statutory Accounting Principles (E) Working Group Referral for RBC Assessment for Capital Notes and Non-Bond Debt Securities (Attachment Four-A1) 9-753
Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup Jan. 16, 2025, Minutes (Attachment Four-B) 9-755
Comment Letter Regarding the 2024 U.S. and Non-U.S. Catastrophe Risk Event Lists from American National (Attachment Four-B1) 9-756
2024 U.S. and Non-U.S. Catastrophe Risk Event Lists (Attachment Four-B2) 9-757
Proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction) (Attachment Four-C) 9-776
Wildfire Modeled Losses Impact Analysis Report (Attachment Four-D) 9-778
Statutory Accounting Principles (E) Working Group Referral on Capital Notes and Non-Bond Debt Securities (Attachment Four-E) 9-779
Insights into Catastrophe Trends from the Actuaries Climate Index and the U.S. Billion-Dollar Disasters (Attachment Four-F) 9-785
Risk-Based Capital Investment Risk and Evaluation (E) Working Group, March 24, 2025, Minutes (Attachment Five) 9-805
Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Feb. 11, 2025, Minutes (Attachment Five-A) 9-808
Presentation from the Academy on the Structured Securities RBC Project (Attachment Five-A1) 9-811
Presentation from ACLI on RBC Principles for Bond Funds (Attachment Five-A2) 9-819

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NAIC's Memorandum of Bond Funds Reported in the 2023 Annual Statement Filings (Attachment Five-A3) 9-829
Collateralized Loan Obligation (CLO) C-1 Update Presentation from the Academy (Attachment Five-B) 9-830
Comment Letter from Payden & Rygel Regarding the ACLI's RBC Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings (Attachment Five-C) 9-844
Comment Letter from Alternative Credit Council (ACC) Regarding the Proposed Principles for Bond Funds (Attachment Five-D) 9-846
Comment Letter from PineBridge Investments Regarding the Proposal to Assign RBC Charges to Bond Mutual Funds According to the Securities Valuation Office (SVO) Designation (Attachment Five-E) 9-849
Referral from the Life Risk-Based Capital (E) Working Group Regarding an ACLI Comment Letter (Attachment Six) 9-851
Proposal 2024-25-CA (Principle-Based Bond Project for Property/Casualty [P/C] and Health) (Attachment Seven) 9-855
Proposal 2024-26-CA (Tax Credit Investments For P/C and Health) (Attachment Eight) 9-872
Proposal 2025-07-CA (Trend Test) (Attachment Nine) 9-887
Proposal 2024-16-CA (Revised Preamble) (Attachment Ten) 9-895

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Draft: 4/1/25

Capital Adequacy (E) Task Force
Indianapolis, Indiana
March 25, 2025

The Capital Adequacy (E) Task Force met in Indianapolis, IN, March 25, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Mike Yanacheak (IA); Judith L. French, Vice Chair, represented by Tom Botsko (OH); Lori K. Wing-Heier represented by David Phifer (AK); Ricardo Lara represented by Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by Shannon Schmoeger (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Hermoliva Abejar (NV); Glen Mulready represented by Andy Schallhorn (OK); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer represented by Ted Hurley (RI); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker and Rachel Hemphill (TX); Scott A. White represented by Doug Stolte (VA); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its Feb. 4, 2025, and 2024 Fall National Meeting Minutes

Yanacheak said the Task Force met Feb. 4, 2025. During this meeting, the Task Force adopted proposal 2024-23-CR (2024 U.S. and Non-U.S. Catastrophe Risk Event Lists), which had been exposed for a 7-day public comment period that ended Feb. 4, 2025.

Botsko made a motion, seconded by Eft, to adopt the Task Force's Feb. 4, 2025 (Attachment One) and Nov. 18, 2024 (*see NAIC Proceedings – Fall 2024, Capital Adequacy (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Health Risk-Based Capital (E) Working Group

Drutz said the Health Risk-Based Capital (E) Working Group met March 24. During this meeting, the Working Group took the following action: 1) adopted its July 25, 2024, minutes, which included the following action: a) adopted its June 24, 2024; June 6, 2024; and April 16, 2024, minutes; b) adopted the 2024 health risk-based capital (RBC) newsletter; c) adopted the 2023 health RBC statistics; d) heard an update from the American Academy of Actuaries (Academy) on the H2 underwriting review; e) forwarded a referral on pandemic risk to the Risk-Focused Surveillance (E) Working Group; and f) adopted its working agenda; 2) received two referral letters from the Statutory Accounting Principles (E) Working Group, the first requesting the Working Group's consideration of a comment received on *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*, and the second informing the Working Group of the exposure of *INT 24-02: Medicare Part D Prescription Payment Plan*, with both referrals exposed for a 30-day public comment period ending April 23; 3) exposed proposal 2025-03-CA for the Underwriting Risk Factors Investment Income Adjustment, which adjusts the underwriting risk factors for comprehensive medical, Medicare supplement, and dental and vision to reflect the investment income adjustment, for a 30-day public comment period ending April 23; and 4) heard a presentation from the Academy on the H2-Underwriting Risk Report. The report includes recommendations on changes to the

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structure and risk factors for underwriting risk pages XR013, LR020, and PR020. The report is forthcoming and expected to be discussed during a late April meeting.

B. Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow said the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met March 24. During this meeting, the Working Group took the following action: 1) adopted its Feb. 11, 2025, and Oct. 22, 2024, minutes, which included the following action: a) received updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group; b) heard updates from the Academy on its structured securities RBC project; c) adopted revisions to its 2024 working agenda; d) discussed the status of the fund review project; and e) exposed the American Council of Life Insurers' (ACLI's) RBC principles for bond funds presentation and the NAIC's memorandum of bond funds reported in the 2023 annual statement filings for a 24-day public comment period that ended March 7; 2) heard an update from the Academy on its structured securities RBC project, which it has thus far made progress on the evaluation of RBC treatment of the collateralized loan obligations (CLOs); 3) received comments on the ACLI's RBC principles for bond funds presentation and the NAIC's memorandum of bond funds reported in the 2023 annual statement filings; and 4) received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.

C. Life Risk-Based Capital (E) Working Group

Barlow said the Life Risk-Based Capital (E) Working Group met March 24. During this meeting, the Working Group took the following action: 1) adopted its Feb. 21, 2025, and Oct. 23, 2024, minutes, which included the following action: a) adopted its 2024 Summer National Meeting minutes; b) exposed proposal 2024-21-L (Tax Credit Investments) for a 75-day public comment period that ended Jan. 6; c) exposed proposal 2024-24-L (Principle-Based Bond Definition Project) for a 75-day public comment period that ended Jan. 6; d) re-exposed proposal 2024-21-L MOD (Tax Credit Investments) for a 30-day public comment period that ended March 23; e) re-exposed proposal 2024-24-L MOD (Principle-Based Bond Definition Project) for a 30-day public comment period that ended March 23; f) exposed proposal 2025-01-L (C-2 Mortality Risk) for a 30-day public comment period that ended March 23; g) exposed proposal 2025-05-L (Assets Concentration—LR010) for a 30-day public comment period that ended March 23 and referred it to the Statutory Accounting Principles (E) Working Group for comments; h) received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup; and i) heard updates from the Academy on covariance and C-3 risk, which included key differences in correlation methodologies across jurisdictions, the impact of time horizons on risk assumptions, and ongoing efforts to refine RBC frameworks; 2) received an update from the GOES (E/A) Subgroup, which met Feb. 26, 2024; Feb. 12, 2025; Jan. 29, 2025; Dec. 19, 2024; and Dec. 11, 2024, and took the following action: a) discussed the model office results of the latest GOES updates; b) referred two documents to the Variable Annuities Capital and Reserve (E/A) Subgroup and Life Risk-Based Capital (E) Working Group regarding GOES for capital calculations; c) discussed revised equity calibration; d) discussed amendment proposal form (APF) 2025-04 to implement the GOES in the Valuation Manual; e) heard a presentation on revised Treasury scenarios; f) discussed the formation of a GOES model governance drafting group; g) discussed the Sharpe ratio methodology for aligning risk-reward across GOES equity indices; h) discussed equity calibration alternatives; and i) discussed the initial Treasury yield fitting methodology and Treasury model flooring methodology; 3) received an update from the Longevity Risk (E/A) Subgroup, which has not met since the 2024 Fall National Meeting; 4) received an update from the Variable Annuities Capital and Reserve (E/A) Subgroup, which met Feb. 20 and took the following action: a) discussed comments received on draft additions to the variable annuities supplement in the annual statement; and b) exposed draft blanks changes to the variable annuities supplement for a 45-day public comment period ending April 6; 5) received a referral from the GOES (E/A) Subgroup requesting amendments to the life RBC blanks and instructions to facilitate the implementation of the new economic scenario generator, which was exposed for a 30-day public comment period ending April 23; 6) heard a presentation from the Academy on C-3 and how a potential alignment of C-3 Phase 1 and C-3 Phase 2

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methodologies could impact instructions and blanks changes to LR027; and 5) exposed proposal 2025-04-L (Other Long-Term Assets—LR008) for a 30-day public comment period ending April 23. The proposal reorganizes LR008 to ensure Schedule BA assets of the same risk components (C-1o vs. C1-cs) are grouped to facilitate proper modified coinsurance (modco)/funds withheld reinsurance agreement adjustments within LR008.

D. Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup

Botsko said the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup met March 24 and took the following action: 1) adopted its 2024 Fall National Meeting minutes; 2) adopted its Feb. 18 and Jan. 16 minutes, which included the following action: a) received an update from the Wildfire Model Review Ad Hoc Group on the CoreLogic wildfire model; b) discussed the wildfire peril impact analysis; c) discussed the wildfire modeled losses impact analysis; d) discussed climate impact disclosures; e) discussed flood peril; f) heard updates from the Academy on its current underwriting risk projects; g) exposed the Statutory Accounting Principles (E) Working Group referral for RBC assessment for capital notes and non-bond debt securities, which it had exposed for a 30-day public comment period that ended March 20; and h) adopted the updated 2024 U.S. and non-U.S. catastrophe risk event lists, which it had exposed for a seven-day public comment period that ended Jan. 16; 3) exposed proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instructions) for a 30-day public comment period ending April 23; 4) heard an update from the Wildfire Model Review Ad Hoc Group regarding the CoreLogic Wildfire Model review; 5) heard an update from the Academy on its current underwriting risk projects; 6) discussed the 2024 underwriting risk factors; 7) discussed the Statutory Accounting Principles (E) Working Group referral on capital note and non-bond debt securities; and 8) discussed insights into catastrophe trends from the Actuaries Climate Index (ACI) and U.S. billion-dollar disasters.

Botsko made a motion, seconded by Malm, to adopt the reports of the Health Risk-Based Capital (E) Working Group (Attachment Two), Life Risk-Based Capital (E) Working Group (Attachment Three), the Property and Casualty Risk-Based Capital (E) Working Group (Attachment Four), and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (Attachment Five). The motion passed unanimously.

3. Exposed a Referral from the Life Risk-Based Capital (E) Working Group Regarding an ACLI Comment Letter

Barlow said that since changes to the health and property/casualty RBC formulas resulting from the adoption of the principle-based bond definition project are similar to the changes to the life formula, the intent of this referral is to forward the ACLI comment letter for the Task Force's consideration. Yanacheak encouraged all interested parties to review the comment letter and provide feedback to the Task Force during the exposure period.

The Task Force agreed to expose the Life Risk-Based Capital (E) Working Group referral regarding the ACLI comment letter (Attachment Six) for a 30-day public comment period ending April 24.

4. Re-Exposed Proposal 2024-25-CA (Principle-Based Bond Project For P/C and Health) and Proposal 2024-26-CA (Tax Credit Investments For P/C and Health)

Yanacheak reiterated that as a result of the adoption of the principle-based bond definition project by the Statutory Accounting Principles (E) Working Group, proposal 2024-25-CA (Principle-Based Bond Project for P/C and Health) and proposal 2024-26-CA (Tax Credit Investments for P/C and Health) were developed to incorporate the annual statement changes in both P/C and health formulas. These two proposals were exposed for a 75-day public comment period that ended Feb. 1. The Task Force received no comments during the exposure period. Yanacheak also said that because the Task Force may receive comments on the Life Risk-Based Capital (E) Working Group referral related to these two proposals, he recommended the Task Force re-expose these two proposals for another 30-day public comment period ending April 24.

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The Task Force agreed to re-expose proposal 2024-25-CA (Attachment Seven) and proposal 2024-26-CA (Attachment Eight) for a 30-day public comment period ending April 24.

5. Exposed Proposal 2025-07-CA (Trend Test)

Yanacheak said this proposal seeks to expand the instructions for LR034, LR035, PR033, PR034, and XR027 to facilitate consistent labeling of various company action levels across lines of business. It was noted that trend testing was incorporated in RBC model laws after the four regulatory levels were instituted. As such, the instructions are expanded to acknowledge this development. He also indicated that no change in trend test calculation or methodology is proposed by this proposal. In addition, LR034 and LR035 in the life RBC formula are modified to align with the corresponding instructions.

The Task Force agreed to expose proposal 2025-07-CA (Attachment Nine) for a 30-day public comment period ending April 24.

6. Re-Exposed Proposal 2024-16-CA (Revised Preamble)

Yanacheak reiterated that the intent of this proposal is to provide edits to the RBC preamble based on the RBC Purposes & Guidelines Ad Hoc Subgroup discussions to clarify and emphasize the purposes and intent of using RBC. He also asked Task Force members whether the Task Force should consider adopting all edits in this proposal except the paragraph of Section E. Barlow said he thought a lot of information in the document is related to Section E. He said his preference is to: 1) adopt the proposal as a whole rather than piecemeal; and 2) defer the adoption until the Task Force members reach a consensus on the preamble wordings. He also stated that re-exposing the proposal to solicit additional comments would be helpful for the discussion in the upcoming meetings. Wolf agreed with Barlow's comments.

To encourage interested parties to provide comments to the Task Force, Drutz and Barlow recommended adding the following two prompts to the re-exposure:

A. As it is currently drafted in this proposal, the proposed edits do not include any edits to the Annual Statement, Five-Year Historical Data page. Are there any comments/objections to adopting the proposed edits to the preamble as is?
B. Please provide examples of how RBC ratios are used other than their intended purpose of identifying weakly capitalized companies.

Brendan Bridgeland (Center for Insurance Policy and Research—CIPR) said he supports the re-exposure of the proposal. Hemphill emphasized that the RBC ratio should not be used to compare or evaluate the strength of the companies.

The Task Force agreed to re-expose proposal 2024-16-CA (Attachment Ten) and the two prompts for a 45-day comment period ending May 9.

7. Heard an Update on Collateral Loans from the Statutory Accounting Principles (E) Working Group

Julie Gann (NAIC) said the Statutory Accounting Principles (E) Working Group adopted the collateral loan proposal at the Spring National Meeting. The proposal is still exposed under the Blanks (E) Working Group for a comment period ending April 29. The Blanks (E) Working Group is anticipated to consider adoption of the proposal May 29. She also stated that all collateral loans are currently reported on one line with a single RBC factor. With the adoption of more granular reporting, consideration can then occur regarding whether the RBC factors should be

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updated to reflect the risk attributed to the underlying collateral. Gann said the Blanks (E) Working Group will provide further updates to the Task Force after May 29.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2025-1-Springl/March 25 CADTF minutes.docx

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Draft: 2/12/25

Capital Adequacy (E) Task Force
E-Vote
February 4, 2025

The Capital Adequacy (E) Task Force conducted an e-vote that concluded Feb. 4, 2025. The following Task Force members participated: Judith L. French, Vice Chair, represented by Tom Botsko (OH); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Timothy J. Temple represented by Melissa Gibson (LA); Grace Arnold represented by Fred Andersen (MN); Mick Campbell represented by John Rehagen (MO); Remedio C. Mafnas (MP); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Andy Schallhorn (OK); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Rachel Hemphill (TX); Scott A. White represented by Doug Stolte (VA); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted the Updated 2024 U.S. and Non-U.S. Catastrophe Risk Event Lists

The Task Force conducted an e-vote to consider adoption of proposal 2024-23-CR (2024 U.S. and Non-U.S. Catastrophe Risk Event Lists). Barlow made a motion, seconded by Schallhorn, to adopt the 2024 U.S. and non-U.S. catastrophe risk event lists (Attachment Four-B2). The motion passed unanimously.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025_Spring/CADTF/Att01_CapAdTF Email Vote.docx

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Draft: 3/30/25

Health Risk-Based Capital (E) Working Group
Indianapolis, Indiana
March 24, 2025

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair and Rachel Hemphill (TX); Wanchin Chou (CT); Kyle Collins (FL); Tish Becker (KS); Danielle Smith, Shannon Schmoeger, and William Leung (MO); Margaret Garrison and Michael Muldoon (NE); and Diana Sherman (PA). Also participating were: Sanjeev Chaudhuri (AL); Tom Botsko (OH); and Andy Schallhorn (OK).

1. Adopted its July 25, 2024, Minutes

Drutz said the Working Group met July 25, 2024. During its meeting, the Working Group took the following action: 1) adopted its June 24, 2024; June 6, 2024; and April 16, 2024, minutes; 2) adopted the 2024 health risk-based capital (RBC) newsletter; 3) adopted the 2023 health RBC statistics; 4) received an update from the American Academy of Actuaries (Academy) on the H2 underwriting review; 5) forwarded a referral letter on pandemic risk to the Risk-Focused Surveillance (E) Working Group; and 6) adopted its working agenda.

Chou made a motion, seconded by Sherman, to adopt the Working Group's July 25, 2024, minutes (Attachment Two-A). The motion passed unanimously.

2. Received Referral Letters from the Statutory Accounting Principles (E) Working Group

Julie Gann (NAIC) said the referral of the comment on *Interpretation (INT) 24-01 Principles-Based Bond Definition Implementation Questions and Answers* was referred to the Health Risk-Based Capital (E) Working Group and the Property and Casualty Risk-Based Capital (E) Working Group. Gann said the referral was related to non-bond debt securities, as well as capital/surplus notes reported on Schedule BA. Currently, life entities have the ability to adjust the risk charge for some assets reported on Schedule BA if they have NAIC designations, specifically Securities Valuation Office (SVO)-assigned designations for non-bond debt securities and NAIC designations in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) for capital/surplus notes, but such treatment is not available for health RBC and property/casualty (P/C) RBC filers. The industry inquired about the potential to align the RBC treatments across types of businesses, and its comment letter was appended to the referral letter.

Gann said the referral for *INT-24-02 Medicare Part D Prescription Payment Plan* was a notice referral that informs the Working Group of the Statutory Accounting Principles (E) Working Group's development of guidance for the prescription payment program that went into effect Jan. 1, 2025. She said the interpretation was exposed, and the Statutory Accounting Principles (E) Working Group had received and incorporated comments from the industry and that adoption was planned for the Statutory Accounting Principles (E) Working Group meeting later that day.

Drutz said the referrals informed the Working Group on areas that may need further deliberations, such as modifications to the RBC structure due to changes in accounting treatment of non-bond debt securities and other receivables resulting from the Medicare Part D prescription payment plans. He asked for interested regulators and interested parties to provide comments on the referred items.

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The Working Group agreed to expose the referrals for a 30-day public comment period ending April 23.

3. Exposed Proposal 2025-03-CA

Drutz said proposal 2025-03-CA is related to the investment income adjustment in the underwriting risk factors for the comprehensive medical, Medicare supplement, and dental and vision underwriting factors. The investment yield for the six-month U.S. Department of the Treasury (Treasury Department) bond in January ranged from 4.24% to 4.3%, which is included in the proposal. Drutz said that based on the guidance adopted in 2022, any adjustments will be rounded up to the nearest 0.5%, so a 4.5% adjustment was utilized in the factors.

Drutz reminded participants that this proposal would affect all lines of business and suggested that the Working Group expose it first and then refer it to the Capital Adequacy (E) Task Force to re-expose for all lines of business.

The Working Group agreed to expose proposal 2025-03-CA for a 30-day public comment period ending April 23.

4. Heard a Presentation from the Academy on the H2—Underwriting Risk Report

Steve Guzski (Academy) said that on April 23, 2021, the Working Group requested the Academy perform a review of the H2—Underwriting Risk factors and managed care credit (MCC) components of the health RBC formula, which had not had a comprehensive review since the health RBC inception. He said there were six areas of focus for the Academy, and five were developed in the three work tracks. Track 1 was the HRBC XR013/XR014 redesign. Track 2 was developing tiered RBC factors, and track 3 was the HRBC XR018/XR019 redesign. The areas developed were: 1) refreshing underwriting factors with updated insurer data; 2) developing factors at an increased granularity; 3) developing the factors to more relevant block sizes; 4) modeling the risk factors over defined time horizons and safety levels; and 5) refresh the MCC formula and factors to reflect current industry practices. (Attachment Two-B). The area of focus that was not developed was the analysis of long-term care insurance (LTCI) underwriting performance, which the Academy suggests referring to the Life Risk-Based Capital (E) Working Group given the prevalence of LTCI among life RBC filers. The Academy also deferred the adoption of any or all the results presented in the report to the Working Group.

Guzski said that the track 1 redesign included aligning the columns on pages XR013 and XR014 with the annual statement, page 7 “Analysis of Operations.” This includes separating Comprehensive Major Medical into Commercial Individual, Commercial Group, Medicare, and Medicaid. The Academy also recommends future improvements to utilize company-specific claims and expense ratios in the risk calculation. This refinement aligns with the structure of the P/C RBC risk calculation.

Guzski said that for developing the track 2 tiered risk factors, the Academy used 10 years of reporting data from the health annual statement and health RBC files. The factors were created at various safety levels and time horizons with a premium tier cut-off increase to remain consistent with industry trends and growth in the health economy. He also said that the provider relationships used in track 3 MCC redesign had changed over time and that Exhibit 7, Part 1, “Summary of Transactions with Providers,” would need to be expanded to gather more information on emerging provider contracting approaches. The Academy plans to study data gathered from the expanded Exhibit 7 to develop a revised MCC methodology. He also discussed next steps, including recommending a five-year review cycle and an analysis of the impact of the recommended changes on a line-of-business and company level.

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Chou asked if the Academy had considered the recent administrative changes to Medicaid in the study of the historical data used to develop the factors. Guzski said that the historical data did not include the recent administrative changes and the recommended five-year review cycle would allow for the Academy to capture the effects of regulatory changes, including the Medicaid changes, as they appear in the data.

Drutz asked if there would be a problem if the Academy took on the LTCI topic and then reported the findings to the Health Risk-Based Capital (E) Working Group. Drutz said that since the Life Risk-Based Capital (E) Working Group has a full agenda, the Health Risk-Based Capital (E) Working Group should consider keeping the LTCI topic and inform the Capital Adequacy (E) Task Force when the analysis is complete. Guzski said that the Academy originally wanted to refer the LTCI topic to the Life Risk-Based Capital (E) Working Group to incorporate subject matter experts (SMEs) for the LTCI topic but is open to facilitating the work.

Drutz asked Guzski to expand on how the future factors for track 1 would be developed to be consistent with the structure of the P/C RBC risk calculation and how the company-specific loss data and the claims and expense ratio would be utilized. Guzski said that the proposal for factors to be in loss ratio and combined ratio terms would align the health RBC with the P/C RBC. Guski said that it would allow the Academy to consider the company-specific experience risk charges during the development of factors during the review cycle, as it is incorporated into the data. Drutz asked if the Academy's current proposal was developed based on aggregate data, with a separate proposal planned later to incorporate company-specific data to further refine the methodology. Guzski agreed. He said the P/C RBC formula is in the process of refining its underwriting risk factor methodology and this proposed timeline will allow the health formula to leverage on that work and make alignments among formulas.

Drutz asked if there are any specific outcomes that differ significantly from the risk charges currently incorporated. Guzski called out the most significant change being the proposed factor for Medicaid business. Instead of using factors broken out by premium tiers, a single factor is proposed. This is driven by the Academy's analysis of the data and the distribution of the entities. The current investment income adjustment remains in place and will be an overlay to the factors proposed.

Drutz asked if the MCC remained unchanged while data was being gathered. Guzski said that the proposal is to take in new data with the adjustments to Exhibit 7, Part 1, so that the Academy can perform an empirical analysis to make changes to MCC credit.

Leung asked what information the Academy is planning to use to develop a new set of underwriting risk factors for LTCI and whether the pricing changes over time will be captured in the factors. From his rate increase filing review experience, explicit underwriting experience was not available to him. Guzski said the scope of the report was major commercial comprehensive medical, and therefore, he would need to take the question back to the Academy to discuss what would be required to update the LTCI factors.

Muldoon asked whether the future proposal that uses company-specific loss ratios and claim experience would reflect the most recent filing year's result. He also asked whether the proposal would contemplate adjustment to ensure premium deficiency reserve (PDR) is properly stated without distorting the RBC calculation. Guzski said the Academy corroborated with the P/C Academy group to learn how the P/C formula incorporates company experience and how outliers are handled in the risk charge. Guzski also said PDR would continue to be looked at holistically and consider the data as collected and available.

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5. Discussed Other Matters

Drutz said that the Working Group plans to meet in late April to receive and discuss the Academy's proposal.

NAIC staff said that they were working with the Academy on a proposal for the Blanks (E) Working Group to address the Exhibit 7, Part 1, expansion, which is anticipated to be exposed in the near future.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025-Spring/HRBC/SpNM Minutes_HRBC.docx

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Draft: 8/3/24

Health Risk-Based Capital (E) Working Group
Virtual Meeting
July 25, 2024

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met July 25, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair, and Aaron Hodges (TX); Wanchin Chou and Sarah Mu (CT); Kyle Collins and Casey Koon (FL); Sarah Smith (KS); Danielle Smith and Debbie Doggett (MO); Margaret Garrison (NE); and Diana Sherman (PA). Also participating was: Tom Botsko (OH).

1. Adopted its June 24, June 6, and April 16 Minutes

Drutz said the Working Group met June 24, June 6, and April 16. During these meetings, the Working Group took the following action: 1) adopted its Feb. 22 minutes; 2) referred proposal 2024-09-CA to the Capital Adequacy (E) Task Force; 3) heard an update from the American Academy of Actuaries (Academy) on the health care receivables and H2 – Underwriting Risk review projects; 4) exposed a referral letter on pandemic risk to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group; 5) discussed the excessive growth charge; 6) exposed proposal 2024-12-H for a 30-day public comment period ending May 16; 7) exposed proposal 2024-12-H (MOD) for a 14-day public comment period ending June 20; and 8) adopted proposal 2024-12-H (MOD) by e-vote June 24.

Sherman made a motion, seconded by Chou, to adopt the Working Group's June 24, June 6, and April 16 (*see NAIC Proceedings – Summer 2024, Capital Adequacy (E) Task Force, Attachment Three*) minutes. The motion passed unanimously.

2. Adopted the 2024 Health RBC Newsletter

Drutz said the 2024 health risk-based capital (RBC) newsletter includes all the proposals adopted by the Working Group for year-end 2024 health RBC forecasting and instructions publications. He said the purpose of this adoption was to consider the newsletter's content, and the format would be updated at a later date. The adopted version of the newsletter will be posted to the Working Group's web page in September.

Smith made a motion, seconded by Chou, to adopt the contents of the Working Group's 2024 health RBC newsletter (Attachment Two-A1). The motion passed unanimously.

3. Adopted the 2023 Health RBC Statistics

Drutz said the 2023 health RBC statistics were run June 27. There were 1,146 health RBC fillings loaded on the NAIC database, up from 1,143 in 2022. Sixteen companies triggered an action level in 2023, of which four were at the company action level, four were at the regulatory action level, three were at the authorized control level, and five were at the mandatory control level. Five companies triggered the trend test. The authorized control level and total adjusted capital (TAC) increased from 2022 to 2023. Net basic operational risk was newly added to the 2023 statistics. Bosko said that the RBC statistics for life and property and casualty (P/C) would show six years' worth of data to conform with the health RBC statistics presentation. He also said that the historical data for the RBC statistics is retained and available upon request. Chou said that the RBC ratio for more than 700 of the companies was more than 500% and commented that the RBC framework may need to be reviewed in the future.

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Drutz mentioned that those companies are likely in runoff or start-up phases, which often have high RBC ratios. Drutz said he would look into the companies with high RBC ratios as a follow-up item.

Chou made a motion, seconded by Sherman, to adopt the 2023 health RBC statistics (Attachment Two-A2). The motion passed unanimously.

4. Received an Update from the Academy on the H-2 Underwriting Review

Steve Guzski (Academy) said the Academy was finalizing the analysis and exhibits for the report across the three Academy H2 – Underwriting Risk review workstreams. He said the Academy is also developing the draft report with an internal Academy review planned for by the end of summer and a final report for the Working Group planned by the end of the calendar year.

5. Forwarded a Referral Letter on Pandemic Risk to the to the Risk-Focused Surveillance (E) Working Group

Drutz said the letter was drafted by NAIC staff and exposed for a 30-day comment period ending May 16. The letter was originally forwarded to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group. Upon further deliberations, the Risk-Focused Surveillance (E) Working Group was identified as the most appropriate group to handle the referral.

Hearing no further questions or objections, the Working Group directed NAIC staff to forward the referral letter to the Risk-Focused Surveillance (E) Working Group.

6. Adopted its Working Agenda

Drutz said the working agenda was revised to incorporate the following changes: 1) agenda item one was updated to reference the adoption of proposal 2024-09-CA; 2) agenda item four was removed as the Working Group adopted proposal 2024-12-H (MOD); 3) agenda item six was removed as consented by the Working Group at its June 6 meeting; 4) remaining agenda items were renumbered as necessary. He also mentioned the Academy's stop-loss RBC work group had exchanged emails to consider looking into RBC stop-loss factors using data from 2018 to 2023.

Sherman made a motion, seconded by Smith, to adopt the Working Group's working agenda (*see NAIC Proceedings – Summer 2024, Capital Adequacy (E) Task Force, Attachment Seven*). The motion passed unanimously..

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2024 for Health RBC:

Date: September 2024
Volume: 26.1

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For the year-end 2024 health risk-based capital (RBC) filing, submit hard copies of pages **XR001 through XR027** to any state that requests a hard copy in addition to the electronic filing. Beginning with year-end 2007, a hard copy of the RBC filings was not required to be submitted to the NAIC. Other pages, outside of pages XR001 through XR027, do not need to be submitted. Those pages would need to be retained by the company as documentation.

Page 1+: Items Adopted for 2024:

Modification of Fixed Income Assets – Miscellaneous (XR008) Structure for Residual Tranches or Interests

The Capital Adequacy (E) Task Force adopted proposal 2024-02-CA during its April 30 meeting to add a line in XR008 to include the total of residual tranches or interests on a standalone line with no factor proposed and, hence, deemed as structural change only.

Factor for Residual Tranches or Interests (XR008)

The Capital Adequacy (E) Task Force adopted proposal 2024-18-CA during its June 28 meeting to adopt a 20% factor for residual tranches or interests in XR008.

Modification to the Affiliated Investment Blanks (XR002)

The Capital Adequacy (E) Task Force adopted proposal 2024-08-CA during its April 30 meeting to remove the reference to "H0 Component" from the Column (12) heading on page

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
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XR002. The "H0" references are misleading in that only affiliate types 1, 2, 5, and 6 flow into H0, while affiliate types 3, 4, 7, 8, and 9 flow into H1.

In addition, the Task Force adopted proposal 2023-12-CA during its Dec. 2, 2023, meeting to adopt an editorial change made to remove the word "Common" in the heading of Column (13) of XR002 (Details for Affiliated Stocks). A corresponding change was made to XR010 (Equity Assets) and XR024 (Calculation of Total Risk-Based Capital After Covariance) by removing the word "Common" in line "Market Value in Excess Affiliated Stocks." This line includes the affiliated amounts for both preferred and common stock.

Underwriting Risk Factors (XR013) – Investment Income Adjustment

The Capital Adequacy (E) Task Force adopted proposal 2024-09-CA during its June 28 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0–$3 Million	0.1427	0.0973	0.1143
$3–$25 Million	0.1427	0.0596	0.0706
Over $25 Million	0.0832	0.0596	0.0706

Receivable for Securities Factor (XR008)

The Capital Adequacy (E) Task Force adopted proposal 2024-13-CA during its June 28 meeting, determining the factor for the Receivables for Securities (Line (11), Page XR008) to remain unchanged.

Underwriting Risk Annual Statement Source (XR014)

The Capital Adequacy (E) Task Force adopted proposal 2023-11-H during its Dec. 2, 2023, meeting. The proposal adopted an editorial change made to the Annual Statement Source column on page XR014 for the following:

a. Column (1), Line (4) Other Health Risk Revenue was updated to reference "Pg. 7, Col. 2+3+8+9, Line 4."

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b. Column (1), Line (10) Fee-For-Service Offset was updated to reference "Pg. 7, Col. 2+3+8+9, Line 3."

Health Care Receivables (XR021) Factor Changes

The Capital Adequacy (E) Task Force adopted proposal 2024-12-H (MOD) during its June 28 meeting. The modified proposal updated the factor for Pharmaceutical Health Care Receivables (line 26.1) to 20% on the first $5 million and 3% on the amount over $5 million. For non-pharmaceutical health care receivables (lines 26.2 through 26.6), tier factors are applied to those lines in the aggregate, with 40% applied on the first $10 million and 5% on the amount over $10 million.

Last Page: RBC Forecasting & Warning:

RBC Forecasting and Instructions

The health RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2024 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies*, and it can be downloaded from the NAIC Account Manager. The *2024 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies* publication is available for purchase in an electronic format through the NAIC Publications Department. This publication is available for purchase on or about Nov. 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

WARNING: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

Last Page: 2024 National Association of Insurance Commissioners:

2024 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Health Risk-Based Capital Newsletter Volume 26.1 Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

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Attachment Two-A2
Capital Adequacy (E) Task Force
3/25/25

Aggregated Health Risk-Based Capital Data
2023 Data as of 6/27/2024

	2023	2022	2021	2020	2020	2019	2019	2018	2018
	Health RBC	Health RBC	Health RBC	Health RBC Excluding ACA Fees	Health RBC	Health RBC Excluding ACA Fees	Health RBC	Health RBC Excluding ACA Fees	Health RBC
Companies that have an RBC loaded on the database	1146	1143	1095	1067	1067	1,012	1,012	965	965
Companies with action levels:	16	28	12	15	15	31	15	18	18
Percentage of total RBC's loaded	1.40%	2.45%	1.10%	1.41%	1.41%	3.06%	1.48%	1.87%	1.87%
Company Action Level - Trend Test	5	13	15	12	12	27	14	13	13
Company Action Level	4	6	5	4	4	14	3	4	4
Regulatory Action Level	4	10	2	3	3	5	3	5	5
Authorized Control Level	3	0	2	2	2	3	2	2	2
Mandatory Control Level	5	12	3	6	6	9	7	7	7
Total H0 (H0 - Asset Risk - Affiliates w/RBC)	6,173,504,244	6,291,267,994	6,077,847,595	5,192,392,682	5,192,392,682	4,782,424,393	4,782,424,393	4,487,634,571	4,487,634,571
Total H1 (H1 - Asset Risk - Other)	15,575,455,266	14,838,262,774	15,015,094,709	11,292,103,225	11,292,103,225	9,743,938,557	9,743,938,557	8,589,245,210	8,589,245,210
Total H2 (H2 - Underwriting Risk)	60,486,797,414	58,513,470,158	52,350,782,384	45,819,164,666	45,819,164,666	44,037,638,071	44,037,638,071	40,572,604,055	40,572,604,055
Total H3 (H3 - Credit Risk)	6,586,546,767	5,526,140,601	4,762,549,718	4,199,732,859	4,199,732,859	3,626,933,231	3,626,933,231	3,408,034,022	3,408,034,022
Total H4 (H4 - Business Risk)	9,128,612,495	8,609,609,597	7,882,405,838	7,481,764,896	7,481,764,896	6,571,143,274	6,571,143,274	6,468,297,728	6,468,297,728
Total RBC Before Covariance	97,950,916,186	93,778,751,124	86,088,680,244	73,985,158,328	73,985,158,328	68,762,077,526	68,762,077,526	63,525,815,586	63,525,815,586
Net Basic Operational Risk	**2,197,013,488**								
Total Adjusted Capital	235,574,847,325	220,326,411,094	211,045,740,619	193,852,790,008	193,859,548,232	160,266,143,771	171,305,834,767	156,735,204,883	156,738,377,038
ACA Fees				6,758,224		11,039,690,995		3,172,155	
Authorized Control Level RBC *	37,756,237,282	36,522,419,595	33,256,637,840	28,853,148,695	28,853,148,695	27,216,649,996	27,216,654,287	25,020,328,688	25,020,329,600
Aggregate RBC %	624%	603%	635%	672%	672%	548%	629%	626%	626%
Median RBC %	643%	628%	633%	706%	707%	640%	672%	668%	668%
# of Companies with an RBC Ratio of > 10,000%	143	148	121	143	143	156	156	134	134
# of Companies with an RBC Ratio of < 10,000% & > 1,000%	262	232	243	259	259	202	215	223	224
# of Companies with an RBC Ratio of < 1,000% & > 500%	327	333	356	320	320	257	282	267	267
# of Companies with an RBC Ratio of < 500% & > 300%	363	341	301	278	278	267	285	256	255
# of Companies with an RBC Ratio of < 300% & > 250%	16	35	32						
# of Companies with an RBC Ratio of < 250% & > 200%	19	25	28						
# of Companies with an RBC Ratio of < 300% & > 200%				52	52	99	59	67	67
# of Companies with an RBC Ratio of < 200% & <> 0%	16	28	12	14	14	31	15	18	18
# of Companies with an RBC Ratio of Zero	0	1	2	1	1	0	0	0	0
Total Companies with RBC	1,146	1,143	1,095	1,067	1,067	1,012	1,012	965	965
Total Revenue	1,086,198,599,716	998,270,459,614	888,638,436,244	806,712,759,846	806,712,759,846	731,800,228,651	731,800,228,651	689,327,716,795	689,327,716,795
Underwriting Deductions	1,067,113,764,391	973,220,456,829	873,483,482,222	774,563,533,665	774,563,533,665	715,077,656,883	715,077,656,883	668,918,380,940	668,918,380,940
Aggregate Premium	309,397,623,307	285,669,735,439	278,391,052,611	277,819,028,596	277,819,028,596	268,818,431,635	268,818,431,635	271,400,290,484	271,400,290,484
Aggregate Net Incurred Claims	885,831,331,032	806,428,955,513	721,841,094,774	622,491,724,778	622,491,724,778	585,439,850,066	585,439,850,066	541,009,426,163	541,009,426,163

* Authorized Control Level RBC amount reported in the Health RBC Excluding ACA Fees column is pulled from Line (18), page XR026, and the Authorized Control Level RBC amount reported in the Health RBC column is pulled from Line (4), page XR027.

Source: NAIC Financial Data Repository
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H2 – Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula – Final Report

Health Risk-Based Capital (E) Working Group
Monday, March 24, 2025

Steven W. Guzski, MAAA, FSA, FCA
Chairperson, Health Solvency Committee

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2

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Agenda

3

- Initial Request from NAIC's Health Risk-Based Capital (E) Working Group (HRBC)
- Six Areas of Focus by the Academy's Work Group
- Determination of Work Tracks (3)
  - Track 1: HRBC XR013/XR014 (Experience Fluctuation Risk) Redesign
  - Track 2: Develop Tiered-RBC Factors
  - Track 3: Redesign HRBC Pages XR018/XR019 (Managed Care Credit)
- Overview of Findings and Results
- Next Steps

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Initial Request from NAIC's HRBC

- On April 23, 2021, the NAIC's HRBC requested assistance from the Academy's Health Solvency Subcommittee to perform a **comprehensive review of the H2 – Underwriting Risk component** and the **managed care credit (MCC) calculation** in the health RBC formula.
- While there have been modifications to certain pieces of the H2 – Underwriting Risk Component, there has not been a comprehensive review of the component and the MCC calculation performed since the formula's inception in 1998.
- Because of the evolving and changing health market over the last 23 years, the HRBC believed a review of the lines of business, methodology, and factors for the H2 – Underwriting Risk component was warranted.

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Six Areas of Focus by the Academy

5

1. Refresh factors based on updated insurer data
2. Develop factors at a more granular product level
3. Develop factors specific to more relevant block sizes and consider an indexing factor for cut points to change over time
4. Model risk factors over an NAIC-defined prospective time horizon with a defined safety level that can be refreshed regularly
5. Refresh of MCC formula and factors to be more relevant and reflective of common contracting approaches and other risk factors associated with these contracting approaches
6. Analyze long-term care insurance (LTCI) underwriting performance to create a more nuanced set of risk factors that considers pricing changes over time

Source:
American_Academy_of_Actuaries_H2_Review_Underwriting_Risk_Report_01.21.2022

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Determination of Work Tracks

6

Three "Work Tracks" were created to support areas of focus #1 through #5:

- **Track 1:** HRBC XR013/XR014 (Experience Fluctuation Risk) Redesign
- **Track 2:** Develop Tiered-RBC Factors
- **Track 3:** Redesign HRBC Pages XR018/XR019 (MCC)

For area of focus #6, the Work Group suggested that an analysis of LTCI be referred to the NAIC's Life Risk-Based Capital (E) Working Group (LRBC), given LTCI's prevalence on the Life/Blue Blank.

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Overview of Findings and Results

7

- The final report describes the Work Group's analysis of those recommendations and their findings.
- The Academy's Work Group defers to the NAIC's decision on whether to adopt any of the results presented in the report after it determines the extent to which the results are aligned with its philosophy on health risk and solvency.

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Track 1: HRBC XR013/XR014 (Experience Fluctuation Risk) Redesign Recommendations

8

- Update HRBC forms XR013/XR014 (Experience Fluctuation Risk) by including columns for Commercial Individual, Commercial Group, Medicare, and Medicaid, rather than grouping these lines of business as Comprehensive Major Medical (CMM). This would align with Page 7, "Analysis of Operations," of the Annual Statement.

- Consider adjusting the risk calculation in two ways in the future, consistent with the structure of the Property and Casualty (P&C) premium risk calculation:
  - Display the risk factors in line with how the business is typically measured and managed (e.g., in claims and expense ratio-based terms);
  - Utilize company-specific loss and expense ratio information to refine the risk calculation.

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Track 2: Develop Tiered-RBC Factors

9

- The Work Group analyzed 10 years of reporting data from Health Annual Statements and RBC reporting to generate risk factors at various risk percentiles/safety levels and time horizons.
- The lines of business were expanded to be more granular and consistent with the current health insurance product landscape.
- Premium tier cut-offs were increased, consistent with health trends and growth in the health economy since the 1990s.
- The final generated tiered RBC risk factors were developed at multiple time horizons and risk percentiles/safety levels for review by the NAIC.

Disclaimer: The Academy's Work Group defers the ultimate categorization of line of business/market and selection of risk factors to NAIC regulators and other decision makers, as the final judgment and selection of factors require several additional considerations (e.g., desired risk tolerance) that are outside the purview of this Work Group.

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Track 3: Redesign HRBC Pages XR018/XR019 (MCC)

10

The Work Group found that the existing MCC categories are not sufficiently detailed:

- The nature of insurer/provider relationships has evolved significantly over the past 25 years since the existing categories were developed.
- While fee-for-service payments are still common, there has been a significant increase in risk-sharing arrangements, particularly for government (i.e., Medicare and Medicaid) lines of business.
- As well, insurance carriers have continued to move providers toward risk-based and value-based contracts as providers' risk tolerances have grown. Frequently, this has led to improvements in member medical management and increasing insurer predictability of claims costs.

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Track 3: Redesign HRBC Pages XR018/XR019 (MCC)(cont.) 11

- The Work Group proposes changes to Exhibit 7 – Part 1 – "Summary of Transactions with Providers," which considers emerging provider contracting approaches.
- The Work Group plans to study the impact these arrangements have on claim volatility in future years to develop a revised MCC methodology.

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Next Steps

Immediate next steps, contingent on the NAIC's approval:

- Finalize line of business (LOB)/market categories and determine risk factors at NAIC-desired risk tolerance and time horizon
- Measure LOB and company-specific impact analysis of results
- Determine cadence of future risk factor updates
- Propose a five-year review cycle
- Propose timeline to produce revised MCC methodology

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Questions?

13

For more information, please contact
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Other Academy Resources

14

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Draft: 4/3/2025

Life Risk-Based Capital (E) Working Group
Indianapolis, Indiana
March 24, 2025

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair and Fred Andersen (MN); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Wanchin Chou (CT); Jane Nelson (FL); Mike Yanacheak (IA); Matt Cheung (IL); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Seong-min Eom (NJ); William B. Carmello (NY); Andy Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT). Also participating were: Tom Botsko and Peter Weber (OH); and John Tudino (RI).

1. Adopted its Feb. 21, 2025, and Oct. 23, 2024, Minutes

The Working Group met Feb. 21, 2025, and Oct. 23, 2024. During these meetings, the Working Group took the following action: 1) adopted its 2024 Summer National Meeting minutes; 2) exposed proposal 2024-21-L (Tax Credit Investments) for a 75-day public comment period that ended Jan. 6, 2025; 3) exposed proposal 2024-24-L (Principle-Based Bond Project) for a 75-day public comment period that ended Jan. 6, 2025; 4) re-exposed proposal 2024-21-L MOD (Tax Credit Investments) for a 30-day public comment period that ended March 23, 2025; 5) re-exposed proposal 2024-24-L MOD (Principle-Based Bond Project) for a 30-day public comment period that ended March 23, 2025; 6) exposed proposal 2025-01-L (C-2 Mortality risk) for a 30-day public comment period that ended March 23, 2025; 7) exposed proposal 2025-05-L (Assets Concentration – LR010) for a 30-day public comment period that ended March 23, 2025; 8) received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup; and 9) heard updates from the American Academy of Actuaries (Academy) on covariance and C-3 risk, which included key differences in correlation methodologies across jurisdictions, the impact of time horizons on risk assumptions, and ongoing efforts to refine risk-based capital (RBC) frameworks.

Chou made a motion, seconded by Muldoon, to adopt the Working Group's Feb. 21, 2025 (Attachment Three-A) and Oct. 23, 2024, (*see NAIC Proceedings – Fall 2024, Capital Adequacy Task Force, Attachment Two*) minutes. The motion passed unanimously.

2. Received Updates from its Subgroups

A. GOES (E/A) Subgroup

The Working Group received updates reported by Yanacheak for the GOES (E/A) Subgroup. In his report, Yanacheak said that following the 2024 GOES field test, feedback from participants was discussed, and several key changes were identified to be made to the GOES: 1) a revised initial Treasury yield curve fitting method; 2) replacement of the flooring method with a dynamic generalized fractional floor targeting 3% negative 1-year Treasury rates in the steady state; and 3) recalibration of the equity model to bring the lower tail accumulated equity returns closer to the acceptance criteria. Model office testing was performed on scenario sets reflecting the changes, and GOES (E/A) Subgroup members generally felt that the results were in line with expectations.

He added that work will now focus on implementing the GOES into the *Valuation Manual* and life RBC blanks and instructions to be effective for 2026 reserve and capital calculations. During the Life Actuarial (A) Task Force's meeting at the Spring National Meeting, discussions were held to continue to refine amendment proposal Form 2025-04 that will effectuate GOES in the *Valuation Manual*. On the RBC side, the GOES (E/A) Subgroup has made referrals to the Variable Annuities Capital and Reserve (E/A) Subgroup and the Life Risk-Based Capital (E) Working

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Group to amend the life RBC blanks and instructions to use the GOES for C-3 Phase I and C-3 Phase II calculations. The Variable Annuities Capital and Reserve (E/A) Subgroup and the Life Risk-Based Capital (E) Working Group plan to meet after the Spring National Meeting to address the referrals.

Additionally, work will need to be done to put a model governance program in place for the GOES. Comments have been received on an initial draft of the model governance framework and discussed at meetings of the GOES Model Governance Drafting Group. Key areas of feedback will be discussed during a future joint meeting of the Life Actuarial (A) Task Force and Life Risk-Based Capital (E) Working Group.

Barlow said that a lot of the work was going on at the Subgroup and at the Life Actuarial (A) Task Force. For those who are interested in knowing details about GOES activities should ensure that they follow both GOES (E/A) Subgroup meetings and the discussions at the Life Actuarial (A) Task Force.

B. Longevity Risk (E/A) Subgroup

Eom reported that the Subgroup has not met since the 2024 Fall National Meeting. She said the Subgroup would resume its meetings once the currently exposed VM-22, Statutory Maximum Valuation Interest Rates for Income Annuities, principle-based reserving (PBR) methodology is finalized. Regarding the VM-22 development relevant to the Subgroup in particular, the longevity reinsurance methodology within the current VM-22 is almost finalized, and she said she anticipates that the Subgroup would resume meetings in early summer.

C. Variable Annuities Capital and Reserve (E/A) Subgroup

Weber said the Subgroup met Feb. 20 to discuss comments that were received on draft additions to the variable annuities supplement in the annual statement. He said that the Subgroup chair drafted blanks changes to the supplement reflecting some of the comments received, as well as comments that were made during the meeting. Weber said the Subgroup exposed the draft supplement blanks additions for a 45-day public comment period ending April 7.

Weber added that on Feb. 27, the Subgroup received a referral from the GOES (E/A) Subgroup. The referral asks the Variable Annuities Capital and Reserve (E/A) Subgroup to consider changes to the capital metric for the C-3 Phase II calculation, if necessary, and to coordinate with the Life Risk-Based Capital (E) Working Group on any changes to the C-3 Phase II metric and related changes to the life risk-based capital blanks and instructions. He concluded that the Variable Annuities Capital and Reserve (E/A) Subgroup plans to meet after the Spring National meeting to address the referral.

3. Received a Referral from GOES (E/A) Subgroup

The Working Group received a referral from the GOES (E/A) Subgroup requesting amendments to the life risk-based capital blanks and instructions to facilitate the implementation of the new economic scenario generator (Attachment Three-B). The Working Group decided to develop a proposal to address the referral from GOES for its consideration.

4. Heard a Presentation from the Academy on C-3 Alignment

Rick Hayes (Academy) and Maambo Mujala (Academy) provided background and the scope of their presentation (Attachment Three-C). Hayes said the Academy C-3 subcommittee met for a number of months by now and there are multiple areas the subcommittee members did not achieve consensus. Those areas are laid out in the

presentation for the Working Group considerations. Hayes believed field testing will be a valuable tool to help in decision making process.

Mujala discussed the proposed timeline, adoption, and phase-in period. She said the timeline is fluid. Mujala said for year-end 2026, the C-3 alignment team hopes to reflect some of the changes that will go in line with some of the GOES adoption and VM-22 PBR adoption. To facilitate some of that decision making, the team anticipates a field test during 2025 and adoption effective year-end 2026.

Barlow asked if the alignment project would require structural changes to the RBC calculation or only instructional changes. Mujala responded by saying the C-3 alignment team hopes that it is isolated through instructions. However, if structural changes are needed, the team would try to factor it into the timeline so that it can still make it into year-end 2026. Barlow suggested that it would be helpful for the team to consider Life Risk-Based Capital (E) Working Group procedures regarding times that changes are to be introduced and whether there are structural or factor changes. For instructional changes only, he suggested that the Working Group and the C-3 alignment team work together to figure out how it could be handled in terms of timing and speeding up the process based on feedback received from interested parties.

Following up on the discussions on assumptions and model approach, Slutsker asked if the Academy would recommend single premium life to rely on VM-20, Requirements for Principle-Based Reserves for Life Products, in lieu of VM-22 as it is in the instructions and scope of VM-20. Mujala said that on Phase I, the reporting entities used cash-flow testing models to do the calculations with the assumption that the models would be "moderately adverse." This is different from Phase II, which used the VM-21, Requirements for Principle-Based Reserves for Variable Annuities, model using prudent estimate assumptions. She said it would be applicable to C-3 Phase I having VM-20 business, which follows PBR requirements if issued from 2020 onward, but for pre-2020 issuances that are not subject to PBR, she said people use the cash-flow testing model. She said that the same situation would be expected as the process moved to VM-22, which also expects to have prospective application.

Mujala said by Jan. 1, 2026, there will be business under VM-22 that is not subject to PBR. She cited a complication that could arise in the C-3 Phase I calculation, where some of the products are under PBR, and others are not. Additionally, she said that for year-end 2026, a lot of companies would probably not have the infrastructures to have PBR models to be incorporated seamlessly into C-3 Phase I calculations. Mujala said that the alignment team would allow some flexibility for companies that do have the infrastructures to move towards using prudent estimate assumptions on PBR models and for companies that could not, they can still continue using their cash-flow testing models. However, for C-3 Phase II, everyone would continue under PBR models' prudent estimate.

Mujala discussed the different approaches and the associated shortcomings with the one-year Treasury rate for discounting for Phase I. She noted that the Phase II approaches, net asset earned rate (NAER) and direct iteration, are better options in terms of intuitiveness and the asset strategy. She indicated that the Academy proposed moving to Phase II discounting approaches, which allows the use of NAER or direct iteration for discounting.

Hayes discussed the C-3 default cost and recommended updating the default cost assumptions in C-3 Phase I to the CTE70 level. He also discussed stochastic equity risk and aggregation. There was no firm recommendation on these topics.

Regarding C-3 floor amount, the Academy recommends retaining the current C-3 floors for year-end 2026 and suggested revisiting this area after 2026. Hayes said the Academy has spent a significant amount of time on the topics of metric, scalar working reserves, and time horizons, and there was divergence in viewpoints in defining risk metrics. Specifically, the C-3 Phase I metric is a surplus measure, whereas the C-3 Phase II metric is an asset

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measure. Hayes said he would like to build out these two metrics in field testing to allow the Academy to quantify the differences and to make recommendations.

Slutsker observed that the Academy's recommendations, for the most part, attempt to align capital methodology with C-3 Phase II, except for the metric decision point (surplus vs. assets). He asked if the Academy is envisioning a recommendation that deviates from C-3 Phase II and if so, what would be the justification or the inconsistency between the two phases. Hayes responded by saying that there are different schools of thought within the Academy subcommittee. While some viewed consistency as key, others see the surplus as more appropriate. Because they were unable to reach consensus, the Academy decided that carrying out field testing first might be helpful to the alignment team in making appropriate decisions.

Slutsker asked if the Academy viewed testing both metrics (assets vs. surplus-based) as a bottleneck in the testing because not only are there two assumptions, but also there are two methodologies. Hayes responded by saying that adding working reserves would be an additional element and noted that there was already a measure of capital within the field test for VM-22 PBR that was placed on greatest premium value accumulated deficiencies (GPVAD) (assets) and not surplus. Layering on working reserves depends on how complex the working reserve is and may not be much additional effort, which is to be determined.

Slutsker then asked if the working reserve would then also be applicable to VM-22 or if it is only intended to be applicable for capital. Hayes responded that it was only applicable for capital. Slutsker noted how interesting the Academy's approach is because of the different points in the distribution and the additional differences involved. Hayes said that the measure of capital would only be GPVAD for assets or surplus, compared to the assets over the reserve, i.e. CTE70 on whatever the basis it is.

Mujala added that part of the tension in their discussion was to understand what was to be captured in both metrics. As part of their exercise, the team investigated the inconsistencies in approaches currently within the capital and what the team would want to reflect in C-1 versus C-3 with the time horizon in mind. She said the Academy would be illustrating the two metrics that would be captured within the field test in its next presentation to the Life Risk-Based Capital (E) Working Group, which would then allow the Working Group to make an appropriate decision. Cheung said it would shock him if RBC was to be calculated on a different basis than the reserve.

Slutsker asked if the Academy subcommittee expects feedback from the Working Group about any of its recommendations. Hayes said that the Academy is looking for feedback for anything covered in the presentation, in particular topics like default cost, stochastic equity risk considerations, etc.

Barlow asked if the proposed field test is new or just an addition to the VM-22 field test. Hayes said that it is a separate field test. He said the Academy will leverage the VM-22 field test to the extent possible but believes a separate field test is warranted.

Barlow encouraged companies to participate in the field test and expressed support from the Working Group for completing this project.

5. Exposed Proposal 2025-04-L (Other Long-Term Assets—LR008)

The Working Group considered proposal 2025-04-L (Other Long-Term Assets – LR008) (Attachment Three-D) and noted the following: 1) the proposal reorganizes LR008 to ensure Schedule BA assets of the same risk components (C-1o vs. C1-cs) are grouped to facilitate proper modified coinsurance (modco)/funds withheld reinsurance agreement adjustments within LR008; 2) should changes proposed for LR008 be adopted, there would be

corresponding changes to LR030 and LR031 instructions and/or blanks; and 3) the areas highlighted in gray within the blank pages of the proposal are subject to the adoption of proposal 2024-21-L MOD and proposal 2024-24-L MOD.

The Working Group agreed to expose proposal 2025-04-L for a 30-day public comment period ending April 23, 2025.

6. Discussed Other Matters

Barlow reminded Working Group that it plans to meet May 1 to consider adoptions of the pending proposal.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

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Draft: 3/3/2025

Life Risk-Based Capital (E) Working Group
Virtual Meeting
February 21, 2025

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Feb. 21, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Sheila Travis (AL); Thomas Reedy (CA); Wanchin Chou (CT); Dalora Schafer (FL); Mike Yanacheak (IA); Vincent Tsang (IL); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Seong-min Eom (NJ); William B. Carmello (NY); Andy Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Re-Exposed Proposal 2024-21-L MOD (Tax Credit Investments)

The Working Group discussed the modified proposal 2024-21-L (Tax Credit Investments) based on the comment letters received from the American Council of Life Insurers (ACLI) (ach hr)and Advantage atal (ach hr) on the earlier exposed tax credit investments proposal (Attachment Three-A3) and noted the following: 1) this modified proposal incorporated changes in response to the comment letters received from interested parties; and 2) the comment letter received from Capital Advantage addresses potential factor(s) changes outside the scope of this proposal.

The Working Group agreed to add the Advantage aialcomment letter to its working agenda for further consideration. The Working Group further agreed to expose the modified proposal 2024-21-L for a 30-day public comment period ending March 23.

2. Re-Exposed Proposal 2024-24-L MOD (Principle-Based Bond Definition Project)

The Working Group discussed the modified proposal 2024-24-L (Principle-Based Bond Definition Project) (ach hr) based on the comment letters received from the ACLI (ach hr) and Pacific Life (Attachment Three-A5) and noted the following: 1) the modified proposal incorporated changes in response to comment letters received from interested parties; 2) some of the proposed edits are subject to changes based on corresponding adoption(s) or action(s) on #2024-19BWG by both the Statutory Accounting Principles (E) Working Group and Blanks (E) Working Group; and 3) the ACLI requested potential referral(s) to the Health Risk-Based Capital (E) Working Group and Property and Casualty Risk-Based Capital (E) Working Group so as to facilitate modifications to health and property and casualty (P/C) risk-based capital (RBC) blanks.

The Working Group agreed to expose the modified proposal for a 30-day public comment period ending March 23.

3. Exposed Proposal 2025-01-L (C-2 Mortality Risk)

The Working Group next considered the American Academy of Actuaries (Academy) proposal 2025-01-L (C-2 Mortality Risk) (Attachment Three-A6) and noted the following: 1) the proposal adds a new general interrogatory to provide the required information for completing LR025 (Life Insurance) page; and 2) the proposal updates the RBC instructions and blanks to allow for direct pulls of information between the annual statement and the RBC blank.

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The Working Group agreed to expose the proposal 2025-01-L for a 30-day public comment period ending March 23.

4. Exposed and Referred Proposal 2025-05-L (Asset Concentration -LR010)

The Working Group considered the ACLI proposal 2025-05-L (Asset Concentration - LR010) (Attachment Three-A7) and noted the proposal seeks to clarify LR010 instruction such that certain "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002.

The Working Group agreed to expose the proposal for a 30-day public comment period ending March 23. The Working Group further decided to refer the proposal to the Statutory Accounting Principles (E) Working Group for comments.

Chou made a motion, seconded by Slutsker, to refer proposal 2025-05-L to the Statutory Accounting Principles (E) Working Group. The motion passed.

5. Discussed Other Matters

Barlow reminded Working Group members that the Working Group plans to meet in person March 24 at the Spring National Meeting.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

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February 5, 2025

Philip Barlow
Chair, NAIC Life Risk-Based Capital (RBC) (E) Working Group (LRBC)

Re: LRBC October 2024 Exposures

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the two RBC Proposal Forms (2024-21-L and 2024-24-L) which were exposed after the Working Group's meeting in October 2024. ACLI has split our comments below based on which exposure document they are referencing after a brief question relating to both forms.

General Feedback

- Will there be referrals for the needed modifications to the Health and P&C blanks? While we know action in these areas is outside the purview of this Working Group, it is perhaps worth notifying the groups of jurisdiction to let them decide if any actions are needed.

2024-21-L (Tax Credit)

LR007 (Real Estate):

- Line 21 (Total Tax Credit Investments) – We understand the line is being repurposed now as a total line, but do we need an instruction for that line? We do not believe the other total lines on LR007 are included in the instructions.

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2024-24-L (Principles-Based Bond Project)

Blanks and/or Instructions -

LR008 (Other Long-Term Assets):

- The surplus notes and capital notes lines reference Schedule BA, should they be referencing the newly adopted lines in the AVR now?
- Line (49.2) – Is the first sentence still needed now that we are speaking about 2025 RBC filing? Should this just state "Include AVR Equity component, Column 1, Line 93 within line (49.2)?

LR009 (Schedule BA Mortgages):

- Basis of factors – the spacing in subsections 1 and 4 should be corrected.
- Changes to scheduled LR009 were introduced in the 2024 RBC instructions to include an explicit line and charge for Schedule BA Mortgages in good standing for "(2) Affiliated Mortgages – Residential – All Other" with a charge of 0.0068 to align with charges on residential mortgage loans held directly. However, a similar line was not added for Unaffiliated Residential Mortgages in Good Standing. This leads to Unaffiliated Residential Mortgages in good standing getting included in either "Unaffiliated Mortgages - Primarily Senior" which has a charge of 0.0175 or "(6) Unaffiliated Mortgages – All Other" which has a charge of 0.0300. Should an additional line be added for "Unaffiliated Mortgages – Residential – All Other" with a proposed charge of 0.0068?
- ACLI would also recommend addressing the fact that BA Farm Loans 90 days overdue and in foreclosures are not mapped into LR009 from the AVR page. This can be seen as there are missing AVR lines (#46 and #51) on the LR009 source column.

LR010 (Asset Concentration Factor):

- Specific instructions for application of the formula – does "short-term investments" need to include cash equivalents now that they are part of LR002?

LR047 - Reinsurance Ceded – All Other Assets C-0, C-10 and C-1cs LR047 (ModCo or Funds Withheld Reinsurance Agreements):

- Column 4 – LR002 Column (2) Line (19) should not be included as LR002 Bonds have their own page only for bonds (LR045) which is shown above with the same reference.

LR048- Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs LR048 (ModCo or Funds Withheld Reinsurance Agreements):

- Column 4 – LR002 Column (2) Line (20) should not be included as LR002 Bonds have their own page only for bonds (LR046) which is shown above with the same reference.

Blanks Pages -

LR002 (Short Term and Cash Equivalent Bonds):

- Line 22 – Now that cash equivalents are to be added here, could there be a need to add a reference for the inclusion of cash equivalents (line 0299999) on this line too? Currently the line only includes LT Bonds and ST Bonds but not Cash Equivalents.

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LR017:

- Off to the side of the Derivative Instruments lines, there is a block of text in the margins that should be removed.

Thank you once again for the opportunity to review these RBC Proposal Forms and we look forward to continued discussions at a future LRBC meeting.

Sincerely,



cc: Kazeem Okosun, NAIC

COMMENT

TO: Life Risk-Based Capital Working Group; c/o Kazeem Okosun (VIA EMAIL)

FROM: Advantage Capital

DATE: January 6, 2025

RE: RBC Charge for Qualified Guaranteed Federal Tax Credit Transactions (2024-21-L)

Newly adopted SSAP No. 93R includes the reporting categories for all qualifying tax credit investments on Schedule BA. While silent on tax credits other than Low-Income Housing Tax Credits ("LIHTCs"), the original version of Schedule BA provided three RBC charges for three groups of Low-Income Housing Tax Credits ("LIHTCs"): (1) guaranteed federal and state LIHTCs; (2) non-guaranteed federal and state LIHTCs; (3) and "all other tax credits."

SSAP No. 93R expands the scope of statutory accounting guidance to include all qualifying tax credit investments regardless of structure or the underlying state/federal tax credit program. Guaranteed federal credits were notably removed from the most favorable RBC category as the working group noted these types of tax credit investments were substantially eliminated under the *Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue* ("*Boardwalk*") decision.

However, we believe it is important to note that the Internal Revenue Service procedure promulgated in the aftermath of *Boardwalk* explicitly allows for recapture guarantees from third parties. Thus, tax credit recapture guarantees are available with respect to federal tax credit programs and specifically common for the New Markets Tax Credit program. Given the availability of this type of guarantee and the ability to obtain a tax opinion that the structure is permissible, from a risk perspective, we believe a lower capital charge subcategory may be warranted for federal tax credit transactions where there is a NAIC CRP-rated guaranty available from a third party.

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Attachment Three-A3
Capital Adequacy (E) Task Force
3/25/25

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**8/20/24**
CONTACT PERSON:	**Kazeem Okosun**
TELEPHONE:	**816-783-8981**
EMAIL ADDRESS:	**kokosun@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801**
	Washington, DC 20002

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Agenda Item # 2024-21-L MOD
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☒ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal is to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to SSAP No. 93 –Investments in Tax Credit Structures and SSAP No. 94R – State and Federal Tax Credits resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the NAIC Blanks (E) Working Group.

This proposal addresses the structural and instructional changes adopted as per 2024-11BWG and does not address the potential factor change (for both RBC and AVR factors) resulted from the expansion of the scope of accounting guidance in SAPWG Ref # 2022-14 and the expansion of the types of tax credit investments captured in the guidance.

Additional Staff Comments:

This proposal removes or renames the Guaranteed Federal Low-Income Housing Tax Credits, Federal Non-Guaranteed Low Income Housing Tax Credits, State Guaranteed Low-Income Housing Tax Credits, State Non-Guaranteed Low-Income Housing Tax Credits, and All Other Low Income Housing Tax Credits lines (AVR lines 75 through 79) and broadens the scope of remaining tax credit structure lines in AVR in line with SAPWG adoption. These changes will result in corresponding changes in LRBC instructions and/or blanks, namely LR007, LR010, LR030 and LR031.

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** **This section must be completed on all forms.** **Revised 2-2023**

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REAL ESTATE

		Annual Statement Source	(1) Book / Adjusted Carrying Value		(2) Average Factor		(3) RBC Requirement
	Real Estate						
(1)	Company Occupied Real Estate	AVR Equity Component Column 1 Line 18					
(2)	Company Occupied Encumbrances	AVR Equity Component Column 3 Line 18					
(3)	Total Company Occupied Real Estate	Line (1) + (2)		X	†	=	
(4)	Foreclosed Real Estate	AVR Equity Component Column 1 Line 20					
(5)	Foreclosed Encumbrances	AVR Equity Component Column 3 Line 20					
(6)	Total Foreclosed Real Estate	Line (4) + (5)		X	†	=	
(7)	Investment Real Estate	AVR Equity Component Column 1 Line 19					
(8)	Investment Encumbrances	AVR Equity Component Column 3 Line 19					
(9)	Total Investment Real Estate	Line (7) + (8)		X	†	=	
(10)	Total Real Estate (pre-MODCO/Funds Withheld)	Lines (3) + (6) + (9)					
(11)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(12)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(13)	Total Real Estate (including MODCO/Funds Withheld)	Lines (10) - (11) + (12)					
	Schedule BA Real Estate						
(14)	Schedule BA Real Estate	Schedule BA Part 1 Column 12 Line 2199999 + Line 2299999, in part					
(15)	Schedule BA Real Estate Encumbrances	Schedule BA Part 1 Column 12 Line 2199999 + Line 2299999, in part					
(16)	Total Schedule BA Real Estate Excluding ~~Low~~ ~~Income Housing~~ Tax Credits Investments Included Below	Line (14) + (15)		X	†	=	
(17)	Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 75		X	0.0014	=	
(18)	Qualifying Federal Tax Credit Investments ~~Federal Non-Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 76		X	0.0260	=	
(19)	Qualifying State Tax CreditInvestments ~~State Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 77		X	~~0.0014~~ 0.0260	=	
(20)	Other Tax Credit Investments ~~State Non-Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 78		X	~~0.0260~~ 0.1500	=	
(21)	Total Tax Credit Investments ~~All Other Low-Income Housing Tax Credits~~	Lines (17) + (18) + (19) + (20) ~~AVR Equity Component Column 1 Line 79~~		~~X~~ X	~~0.1500~~	=	
(22)	Total Schedule BA Real Estate (pre-MODCO/Funds Withheld)	Lines (16) + ~~(17) + (18) + (19) + (20) +~~ (21)					
(23)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(24)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(25)	Total Schedule BA Real Estate (including MODCO/Funds Withheld)	Lines (22) - (23) + (24)					

† Column (2) is calculated as Column (3) divided by Column (1).
‡ The RBC requirement is calculated for each individual property and then summarized on this page. Refer to the worksheet included in the Real Estate portion of the instructions.

Details Eliminated to Conserve Space

LR007

Company Name | Confidential when Completed | NAIC Company Code

ASSET CONCENTRATION FACTOR

Details Eliminated to Conserve Space

	(1) Asset Type	(2) Book / Adjusted Carrying Value		(3) Factor		(4) Additional RBC	(5) Adjustment/ Subsidiary RBC	(6) RBC Requirement
(31)	Farm Mortgages - 90 Days Overdue							
(32)	Farm Mortgages - 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(33)	Residential Mortgages - 90 Days Overdue							
(34)	Residential Mortgages - 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(35)	Commercial Mortgages - 90 Days Overdue							
(36)	Commercial Mortgages - 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(37)	Farm Mortgages in Foreclosure							
(38)	Farm Mortgages in Foreclosure - Cumulative Writedowns		X	‡	=			
(39)	Residential Mortgages in Foreclosure							
(40)	Residential Mortgages in Foreclosure - Cumulative Writedowns		X	‡	=			
(41)	Commercial Mortgages in Foreclosure							
(42)	Commercial Mortgages in Foreclosure - Cumulative Writedowns		X	‡	=			
(43)	Unaffiliated Mortgages with Covenants		X	‡	=			
(44)	Unaffiliated Mortgages - Defeased with Government Securities		X	0.0090	=			
(45)	Unaffiliated Mortgages - Primarily Senior		X	0.0175	=			
(46)	Unaffiliated Mortgages - All Other		X	0.0300	=			
(47)	Affiliated Mortgages - Category CM2		X	0.0175	=			
(48)	Affiliated Mortgages - Category CM3		X	0.0300	=			
(49)	Affiliated Mortgages - Category CM4		X	0.0500	=			
(50)	Affiliated Mortgages - Category CM5		X	0.0750	=			
(51)	Schedule BA Mortgages 90 Days Overdue							
(52)	Schedule BA Mortgages 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(53)	Schedule BA Mortgages in Process of Foreclosure							
(54)	Schedule BA Mortgages Foreclosed - Cumulative Writedowns		X	‡	=			
(55)	**Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low Income Housing Tax Credits~~**		X	0.0014	=			
(56)	**Qualifying Federal Tax Credit Investments ~~Federal Non-Guaranteed Low Income Housing Tax Credits~~**		X	0.0260	=			
(57)	**Qualifying State Tax CreditInvestments ~~State Guaranteed Low Income Housing Tax Credits~~**		X	**0.0260 ~~0.0014~~**	=			
(58)	**Other Tax Credit Investments ~~State Non-Guaranteed Low Income Housing Tax Credits~~**		X	**0.1500 ~~0.0260~~**	=			
~~(59)~~	**~~All Other Low-Income Housing Tax Credits~~**		**~~X~~**	**~~0.1500~~**	**~~=~~**			
(59) ~~(60)~~	NAIC 02 Working Capital Finance Notes		X	0.0163	=			
(60) ~~(61)~~	Other Schedule BA Assets		X	0.1500	=			
(61) ~~(62)~~	Total of Issuer = Sum of Lines (1) through **(60) ~~(61)~~**							

NOTE: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calculated as the sum of issuers 1-10 by asset type.

Details Eliminated to Conserve Space

LR010

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

Details Eliminated to Conserve Space

(042)	Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	–	
(043)	Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	–	
(044)	Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	–	†
(045)	Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	–	
	Separate Accounts						
(046)	Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	–	
(047)	Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	–	
(048)	Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	–	
(049)	Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	–	†
(050)	Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	–	
(051)	Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	–	
(052)	Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	–	
	Real Estate						
(053)	Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	–	
(054)	Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	–	
(055)	Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	–	
(056)	Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	–	†
(057)	Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X	0.2100	–	
	Schedule BA						
(058)	Sch BA Real Estate Excluding ~~Low Income Housing~~ Tax Credits **Investments**	LR007 Real Estate Column (3) Line (16)		X	0.2100	–	
(059)	~~Guaranteed Low Income Housing Tax Credits Investments~~ **Yield Guaranteed State Tax Credit Investments**	LR007 Real Estate Column (3) Line (17) **+** ~~Line (19)~~		X	0.0000	–	
(060)	~~Non-Guaranteed and All Other Low Income Housing Tax Credits Investments~~ **Qualifying and Other Tax Credit Investments**	LR007 Real Estate Column (3) Line (18) **+ Line (19)** + Line (20) ~~+ Line (21)~~		X	0.0000	–	
(061)	Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	–	†
(062)	Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	–	

† Denotes lines that are deducted from the total rather than added.

Details Eliminated to Conserve Space

LR030

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

Details Eliminated to Conserve Space

		Source	(1) RBC Requirement
(32)	Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(33)	Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(34)	Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(35)	Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(36)	Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(37)	Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)	
(38)	Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (61) ~~(62)~~ Grand Total Page	
(39)	Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(40)	Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(41)	Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(42)	Total (C-1o) - Pre-Tax	Sum of Lines (22) through (41)	
(43)	(C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110)	
(44)	Net (C-1o) - Post-Tax	Line (42) - Line (43)	
	Insurance Risk (C-2)		
(45)	Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (5)	
(46)	Group and Credit Life Insurance and FEGI/SGLI	LR025 Life Insurance Column (2) Line (12)	
(46b)	Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(47)	Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(48)	Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(49)	Total (C-2) - Pre-Tax	L(47) + L(48) + Greatest of [Guardrail Factor * (L(45)+L(46)), Guardrail Factor * L(46b), Square Root of [(L(45) + L(46))2 + L(46b)2 + 2 * (Correlation Factor) * (L(45) + L(46)) * L(46b)]]	
(50)	(C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(51)	Net (C-2) - Post-Tax	Line (49) - Line (50)	
	Interest Rate Risk (C-3a)		
(52)	Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(53)	(C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(54)	Net (C-3a) - Post-Tax	Line (52) - Line (53)	
	Health Credit Risk (C-3b)		
(55)	Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(56)	(C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(57)	Net (C-3b) - Post-Tax	Line (55) - Line (56)	

Details Eliminated to Conserve Space

LR031

REAL ESTATE
LR007

Basis of Factors

The base factor for equity real estate of 11% was developed by adding a margin for conservatism to the results of an analysis of real estate performance over the period of 1978 – 2020. The analysis was conducted by a group of life insurance company real estate investment professionals coordinated by the ACLI. The data used was a national database of real property owned by investment fiduciaries and supplemented by data on real estate backing mortgage securities. The analysis is documented in a report to the NAIC dated March 29, 2021. In addition to modifying the factor for company owned and investment real estate, this updated factor will also be used for real estate acquired in satisfaction of debt (Foreclosed real estate). Foreclosed real estate is recognized in the statutory statements as having acquisition cost equal to market value at time of foreclosure. For assets with the characteristics of real held estate (partnership or other structure) reported on Schedule BA, a higher factor of 13% is used to account for the lower transparency involved with these structures. Schedule BA real estate was originally given a higher factor under a presumption that it was more highly levered. Analysis has shown these assets to have experience very similar to directly held and will therefore use a modestly higher factor.

While the experience analysis was done based on analysis of fair value impacts, Real Estate is reported at depreciated cost in the Statutory statements. The difference in values impacts the risk to statutory surplus. Therefore, an adjustment is made to the factor based on the difference between fair value and statutory carrying value on a property-by-property basis. The adjustment is defined as

Adj Factor = *RE Factor*(1 – [factor] * (MV-BVg)/BVg)}*

factor is 0 This zero factor for the fair value adjustment is **effective beginning yearend** 2021 RBC filings.

The resulting adjusted RBC factor is subject to a minimum of zero. In the RBC calculation, see Figure 7, fair value is taken from Schedule A Column 10 plus encumbrances, or from Schedule BA column 11 plus encumbrances, respectively, while BVg is the net Book Adjusted Carrying Value plus the encumbrance.

Encumbrances have been included in the real estate base since the value of the property is held net of the encumbrance, but the entire value is subject to loss. Encumbrances receive the base real estate factor of 11%, reduced by the average factor for commercial mortgages of 1.75% pre-tax In the past this was computed as a base factor applied to the net real estate value plus a separate factor applied to the amount of the encumbrance. Beginning in 2021, the equivalent result will be obtained by applying a base factor to the gross statutory value of the property, and a credit provided for the amount of the encumbrance.

The final RBC amount is subject to a minimum of the Baa bond factor 1.30% applied to the BACV, and a maximum of 45% of the BACV.

Specific Instructions for Application of the Formula

Column (1)
Calculations are done on an individual property or joint venture basis in the worksheets and then the summary amounts are entered in this column for each class of real estate investment. Refer to the real estate calculation worksheet (Figure 7) for how the individual property or joint venture calculations are completed.

Line (1) should equal Page 2, Column 3, Line 4.1.
Line (2) should equal Page 2, inside amount, Line 4.1.

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Line (4) should equal AVR Equity Component Column 1 Line 20.
Line (5) should equal AVR Equity Component Column 3 Line 20.
Line (7) should equal AVR Equity Component Column 1 Line 19.
Line (8) should equal AVR Equity Component Column 3 Line 19.
Line (14) should equal Schedule BA, Part 1, Column 12, Line 2199999 plus Line 2299999, in part.
Line (15) should equal Schedule BA, Part 1, Column 12, Line 2199999 plus Line 2299999, in part.
Line (17) should equal AVR Equity Component Column 1 Line 75.
Line (18) should equal AVR Equity Component Column 1 Line 76.
Line (19) should equal AVR Equity Component Column 1 Line 77.
Line (20) should equal AVR Equity Component Column 1 Line 78.
Line (21) should equal AVR Equity Component Column 1 Line 79.

~~Low-income housing tax credit investments~~All i~~I~~nvestments in tax credit structures within the scope of SSAP No. 93 – Investments in Tax Credit Structures are to be reported in Column (1)~~ – *Low-Income Housing Tax Credit Property Investments*~~.

Column (2)
The average factor column is calculated as Column (3) divided by Column (1).

Column (3)
Summary amounts are entered for Column (3) based on calculations done on an individual property or joint venture basis. Refer to Column (8) of the real estate calculation worksheet (Figure 7).

Line (17)
Yield Guaranteed State Tax Credit ~~federal low-income housing tax credit (LIHTC)~~ I~~i~~nvestments are to be included in Line (17). There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.

Line (18)
Qualifying Federal Tax Credit Investments are to be included in Line (18). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.
~~Non-guaranteed federal LIHTC investments with the following risk mitigation factors are to be included in Line (18):~~
~~a) A level of leverage below 50 percent. For a LIHTC Fund, the level of leverage is measured at the fund level.~~
~~b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.~~

Line (19)
~~State LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments~~Qualifying State Tax Credit Investments are to be included in Line (19)~~.~~ Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.

Line (20)
~~State LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments~~Other Tax Credit Investments are to be included in line (20). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit ~~or~~Investments or qualifying Federal or State Tax Credit Investments are included here.

Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. This Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~Line (21)~~
~~State and federal LIHTC~~Total Tax Credit ~~investments that do not meet the requirements of~~sum of ~~lines (17) through (20) would be reported on Line (21).~~



Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**10/7/2024**
CONTACT PERSON:	**Maggie Chang**
TELEPHONE:	**816-783-8976**
EMAIL ADDRESS:	**mchang@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801**
	Washington, DC 20002

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Agenda Item # 2024-24-L MOD
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal incorporates changes adopted by the NAIC Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes are resulted from adoption of principle-based bond definition by Statutory Accounting Principles (E) Working Group.

In addition, certain editorial changes are proposed herein to provide clarifying edits to Life and Fraternal RBC instructions and/or Blanks. These clarifying edits are not necessarily related to the principle-based bond definition project. **All changes are proposed for 2025 RBC filings**.

Additional Staff Comments:

Rationale for the key proposed clarifying edits are as follows:

LR002 – With effect from 2005 RBC filing, Cash Equivalent Bonds are subtracted from LR012 Miscellaneous Asset page and are instructed to be reported on LR002. Proposed clarifying edits in Annual Statement Source column are deemed necessary

as the current AVR references do not contemplate Cash Equivalent Bonds. Additionally, The proposed presentation aligns with RBC treatment of Cash Equivalent Bonds in Health and P/C formulas.

LR012 – Line (2.2) "Less Cash Equivalent Bonds Already Included with Page LR002 Bonds" no longer requires sourcing data "in part" as Schedule E Part 2 has dedicated line for Cash Equivalent Bonds, which are all supposed to have NAIC Designation Categories and are aggregated by NAIC Designation Categories in footnote to Schedule E, Part 2. Refer to Annual Statement instructions for details.

LR047 & LR048 – Diversity in practice was observed as to how filers interpret the instruction: *The "total" should equal the total amount of the Reduction/ Increase of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.* As such, clarifying edits are proposed to give explicit instructions.

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MKC on 1/7/2025– Comments received on 1/6/2025, see summary below for comments and corresponding NAIC actions:

Item #	Commenter	Comments	NAIC's response
1	ACLI	*LR008 (Other Long-Term Assets) blanks:* The surplus notes and capital notes lines reference Schedule BA, should they be referencing the newly adopted lines in the AVR now?	The newly adopted lines in AVR for capital and surplus notes are added to LR008 page, Line (53.1)
2	ACLI	*LR008 (Other Long-Term Assets) instruction:* Line (49.2) – Is the first sentence still needed now that we are speaking about 2025 RBC filing? Should this just state "Include AVR Equity component, Column 1, Line 93 within line (49.2)?	Agreed. Deleted Line (49.2) instruction altogether as it is a pull from line (49.1).
3	ACLI	*LR009 (Schedule BA Mortgages) instruction:* *Basis of factors – the spacing in subsections 1 and 4 should be corrected.*	Agreed. Formatting corrected.
4	ACLI	*LR009 (Schedule BA Mortgages) blanks and/or instructions:* Changes to scheduled LR009 were introduced in the 2024 RBC instructions to include an explicit line and charge for Schedule BA Mortgages in good standing for "(2) Affiliated Mortgages – Residential – All Other" with a charge of 0.0068 to align with charges on residential mortgage loans held directly. However, a similar line was not added for Unaffiliated Residential Mortgages in Good Standing. This leads to Unaffiliated Residential Mortgages in good standing getting included in either "Unaffiliated Mortgages - Primarily Senior" which has a charge of 0.0175 or "(6) Unaffiliated Mortgages – All Other" which has a charge of 0.0300. Should an additional line be added for "Unaffiliated Mortgages – Residential – All Other" with a proposed charge of 0.0068?	The current structure incorporated ACLI comment letter dated 2/26/2024. RBC is driven by AVR presentation. There is not a designated line for "Sch. BA - Unaffiliated Residential Mortgages in Good Standing." in AVR Equity Component Table. NAIC staff plan to capture this topic in a dedicated RBC proposal for Working Group discussion in the future.
5	ACLI	*LR009 (Schedule BA Mortgages) blanks:* ACLI would also recommend addressing the fact that BA Farm Loans 90 days overdue and in foreclosures are not mapped into LR009 from the AVR page. This can be seen as there are missing AVR lines (#46 and #51) on the LR009 source column.	Agreed. Added to the modified proposal. This conforms with adopted Proposal 2023-07-L.

6	ACLI	*LR010 (Asset Concentration Factor) instruction:* Specific instructions for application of the formula – does "short-term investments" need to include cash equivalents now that they are part of LR002?	Comments taken, see edits proposed to LR010 instruction.
7	ACLI	*LR047 - Reinsurance Ceded – All Other Assets C-0, C-10 and C-1cs LR047 (ModCo or Funds Withheld Reinsurance Agreements) instruction:* Column 4 – LR002 Column (2) Line (19) should not be included as LR002 Bonds have their own page only for bonds (LR045) which is shown above with the same reference.	Agreed, corrected.
8	ACLI	*LR048- Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs LR048 (ModCo or Funds Withheld Reinsurance Agreements):* Column 4 – LR002 Column (2) Line (20) should not be included as LR002 Bonds have their own page only for bonds (LR046) which is shown above with the same reference.	Agreed, corrected.
9	ACLI	*LR002 (Short Term and Cash Equivalent Bonds) blanks:* Line 22 – Now that cash equivalents are to be added here, could there be a need to add a reference for the inclusion of cash equivalents (line 0299999) on this line too? Currently the line only includes LT Bonds and ST Bonds but not Cash Equivalents.	Agreed. Cash Equivalent reference added to LR002 Line (22).
10	ACLI	*LR017 blanks:* Off to the side of the Derivative Instruments lines, there is a block of text in the margins that should be removed.	Agreed, text removed.
11	Pacific Life	*LR009 (Schedule BA Mortgages) Instructions and Blanks*	Comments that are not addressed within this modified proposal will be addressed in a dedicated RBC proposal for Working Group discussion in the future. See # 4 above.
12	ACLI	Asset Concentration Factor LR010 for non-bond debt securities reported on Schedule BA.	Refer to Proposal 2025-05-L

MKC 2/14/2025 – This modified proposal incorporated changes in response to interested parties' comments as detailed above. Given certain investment-related agendas at Statutory Accounting Principles (E) Working Group and Proposal #2024-19BWG have not been fully adopted at NAIC Blanks (E) Working Group at the time of this draft, **proposed edits are subject to changes based on corresponding adoption(s)/action(s) at SAPWG and BlanksWG.** Proposed edits that are new in this modified proposal are highlighted in YELLOW.

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**** This section must be completed on all forms.** **Revised 2-2023**

Detail Eliminated to Conserve Space

BONDS
LR002

Basis of Factors

The bond factors are based on cash flow modeling using historically adjusted default rates for each bond category. For each of 2,000 trials, annual economic conditions were generated for the 10-year modeling period. Each bond of a 400-bond portfolio was annually tested for default (based on a "roll of the dice") where the default probability varies by designation category and that year's economic environment. When a default takes place, the actual loss considers the expected principal loss by category, the time until the sale actually occurs and the assumed tax consequences.

Actual surplus needs are reduced by incorporating anticipated annual contributions to the asset valuation reserve (AVR) as offsetting cash flow. Required surplus for a given trial is calculated as the amount of initial surplus funds needed so that the accumulation with interest of this initial amount and subsequent cash flows will not become negative at any point throughout the modeling period. The factors chosen for the proposed formula produce a level of surplus at least as much as needed in 92% of the trials by category and a 96% level for the entire bond portfolio.

The factor for NAIC 6 bonds recognizes that the book/adjusted carrying value of these bonds reflects a loss of value upon default by being marked to market.

Specific Instructions for Application of the Formula

Lines (1) through (7)
The book/adjusted carrying value of all bonds and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For long-term bonds, these classifications are found on Lines 1 through 7 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (8)
The total should equal long-term bonds and other fixed-income instruments reported on Page 2, Column 3, Line 1 plus Schedule DL Part 1, Column 6, Line **2009999999** ~~**2509999999**~~ of the annual statement.

Lines (9) through (15)
The book/adjusted carrying value of all bonds and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For short-term bonds, these classifications are found on Lines 18 through 24 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (16)
The total should equal short-term bonds reported on Schedule DA, Part 1, **Column 6** Line **0509999999** ~~**2509999999**~~ plus Schedule DL Part 1, Column 6, Line 9509999999 plus **Schedule E, Part 2, Column 7, Line 0509999999** ~~**LR012 Miscellaneous Assets Column (1) Line (2.2)**~~.

Line (22)
Class 1 bonds (highest quality) issued by a U.S. government agency that are not backed by the full faith and credit of the U.S. government should be reported on this line. The loan-backed securities of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) would be examples of the securities reported on this line. Line (22) should not be larger than the sum of Lines (2) and (10). Exempt obligations should not be included on this line.

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Line (24)
Bonds should be aggregated by issuer (the first six digits of the CUSIP number can be used). Exempt U.S. government bonds and bonds reported on Line (22) are not counted in determining the size factor. The RBC for those bonds will not be included in the base to which the size factor is applied. If this field is left blank, the maximum size factor adjustment of 2.40 will be used.

Line (25)
The size factor reflects the higher risk of a bond portfolio that contains relatively fewer bonds. The overall factor decreases as the portfolio size increases. ~~**Portfolios with more than 1,300 issuers will receive a discount.**~~ The size factor is based on the weighted number of issuers. (The calculation shown below will not appear on the RBC filing software but will be calculated automatically.)

Line (25)	Source	(a) Number of Issuers				(b) Weighted Issuers
First 50	Company Records		X	2.40	=	
Next 50	Company Records		X	1.53	=	
Next 100	Company Records		X	0.85	=	
Next 300	Company Records		X	0.85	=	
Over 500	Company Records		X	0.82	=	
Total Number of Issuers from Line (23)						
Total Weighted Issuers						
Size Factor = Total Weighted Issuers Divided by Total Number of Issuers						

Detail Eliminated to Conserve Space

UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

Basis of Factors

Unaffiliated Preferred Stock
Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds.

Unaffiliated Common Stock
~~Non-government money market mutual funds are more like cash than common stock; therefore, it is appropriate to use the same factor as for cash~~. Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

Specific Instructions for Application of the Formula

Lines (1) through (6)
Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

Line (7)
Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16. Column (2) should equal Schedule D Summary by Country, Column 1, Line 22 ~~18~~ less Asset Valuation Reserve Default Component, Column 1, Line 16.

Line (13)
Amount should reflect any non-admitted unaffiliated common stock that was included in ~~the book/adjusted carrying value of Schedule D Summary by Country, Line 25, Column 1 (~~Line (11) of this page~~)~~.

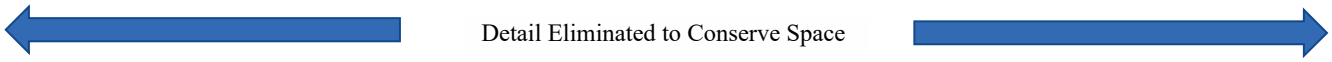
Line (14)
Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

Line (16)
The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

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Line (17)
Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line 29 ~~25~~ less Schedule D Summary by Country, Column 1, Line 28 ~~24~~ less line (13).

Lines (19) and (20)
To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.



OTHER LONG-TERM ASSETS
LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (49.1)
Schedule BA affiliated common stock – all others should be included in C-1cs. Specifically this means that all subs with an affiliate code 9 ~~13~~ in the current life-based framework and "holding company in excess of indirect subsidiaries" or subsidiaries with affiliate code 3 ~~7~~ are to be included in C-1cs.

~~Line (49.2)~~
~~New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2).~~

Line (50)
Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Line (58)
Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (21) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

SCHEDULE BA MORTGAGES
LR009

Basis of Factors

For Affiliated Mortgages**,** Line ~~1299999 and~~ 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated Mortgages, Line ~~1199999 and~~ 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line **(3)** ~~(2)~~ for mortgages with covenants that are in compliance.
2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

Column (1)
Except for Line (1), **(2),** **(13)** ~~**(12),**~~ **and (17)** ~~**(16),**~~ calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines ~~1199999, 1299999,~~ 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Notes to Financials 5S, **Column 1**, line 7**a and 7b.**

Column (2)
Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)
Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)
No longer used. Place "XXX" in any blanks for this column.

Column (5)
For Line (1), the pre-tax factor is 0.0014.
For Line (2), the pre-tax factor is 0.0068.
For Line (3), the average factor column is calculated as Column (6) divided by Column (3).
For Line (4), the pre-tax factor is 0.0090.
For Line (5), the pre-tax factor is 0.0175.

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For Line (6), the pre-tax factor is 0.0300.
For Line (7), the pre-tax factor is 0.0090.
For Line (8), the pre-tax factor is 0.0175.
For Line (9), the pre-tax factor is 0.0300.
For Line (10), the pre-tax factor is 0.0500.
For Line (11), the pre-tax factor is 0.0750.
For Line (13), the pre-tax factor is 0.0027.
For Lines (14) through (15), the pre-tax factor is 0.1100.
For Line (17), the pre-tax factor is 0.0054.
For Lines (18) through (19), the pre-tax factor is 0.1300.

Column (6)
For Lines (1) **and (2),** (4) through (11), (13) through (15) and (17) through (19), the RBC subtotal in Column (3) is multiplied by the average factor to calculate Column (6). The categories and subtotals will be determined in the company developed worksheet Figure (10).

For Line (3), **summary amounts are entered for** Column (6) based on calculations done on an individual mortgage basis as determined in the company developed worksheet Figure (10).

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheet (Figure10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure and in an unaffiliated structure where there are covenants. Residential Mortgages and Commercial Mortgages Insured or Guaranteed are **included in Line (1), (13), or (17) as appropriate ~~classified as Category CM1~~**. The following factors are used for each category of mortgages:

	Schedule BA Mortgage Factors	
LR009 Line Number		Factor
(4)	Unaffiliated – defeased with government securities	0.0090
(5)	Unaffiliated investments comprised primarily of Senior Debt	0.0175
(6)	Unaffiliated – all other unaffiliated mortgages	0.0300
(7)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM1	0.0090
(8)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM2	0.0175
(9)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM3	0.0300
(10)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM4	0.0500
(11)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM5	0.0750
(13)	90 Days Past Due - Insured or Guaranteed	0.0027
(14)	90 Days Past Due (CM6) - Unaffiliated with Covenants	0.1100
(15)	90 Days Past Due (CM6) – Affiliated	0.1100

(17)	In Process of Foreclosure - Insured or Guaranteed	0.0054
(18)	In Process of Foreclosure (CM7) - Unaffiliated with Covenants	0.1300
(19)	In Process of Foreclosure (CM7) – Affiliated	0.1300

Detail Eliminated to Conserve Space

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~v. 5.1~~ (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3-year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (43), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

Detail Eliminated to Conserve Space

ASSET CONCENTRATION FACTOR

LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids,**~~ CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, ~~and~~ cash ~~**and**~~ **certain cash equivalents and** short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA partnerships should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. The RBC filing software automatically allows for an overall 45% RBC cap.

Detail Eliminated to Conserve Space

COMMON STOCK CONCENTRATION FACTOR

LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, investment companies (mutual funds) and common trust funds, that are diversified with the meaning of the Investment Company Act, and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code **3** ~~**7**~~ on **LR044** ~~**LR042**~~ (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code **9** ~~**13**~~ (other subsidiaries), the total stock investment including both preferred and common stock should be used.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

MISCELLANEOUS ASSETS
LR012

Basis of Factors

Lines (1) through (3.3)
The pre-tax factor for cash is 0.39%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. The 0.39% pre-tax factor, equivalent to a NAIC 1 bond, reflects the short-term nature of this risk.

With effect from 2005, Line (2.2) was added to LR012 Miscellaneous Assets to subtract cash equivalents bonds from cash equivalents. This change was made due to a change in the Annual Statement instructions indicating that cash equivalent bonds should be included as bonds in Schedule D, Part 1A.

~~**The short-term investments to be included here are those not reflected elsewhere in the formula. Commercial paper, repurchase agreements, collateralized mortgage obligations (CMOs), mortgage participation certificates (MPCs), interest-only and principal-only certificates (IOs and POs), and equipment trust certificates should be included in appropriate bond classifications (NAIC 1 through NAIC 6) on LR002 Bonds and should be excluded from short-term investments.**~~
Line (3.1) should include all short-term investments reported on Schedule DA as permitted under *SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments*. Line (3.2) should reflect issuer credit obligations pursuant to *SSAP No. 26—Bonds* that qualify as short-term investments under *SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments*. Bonds reported as asset-backed securities are not permitted to be reported as short-term investments and shall not be captured in line (3.1) or (3.2). The 0.39% pre-tax factor is equal to the factor for cash.

Lines (4) through (7)
Premium notes~~, receivables for securities~~ and write-ins for invested assets are generally a small proportion of total portfolio value. A pre-tax factor of 6.8% is consistent with other risk-based capital formulas studied by the working group. The total amount of derivatives cash collateral receivable (pledged to counterparty and/or central clearinghouse) included in Line (6.1) (from **Page 2**, Line 11~~, page 2~~) should be included on Line (6.2) resulting in Line (6.3) including no derivative collateral receivable amounts. Pledged collateral is reported in LR017, Off-Balance Sheet and Other Items.

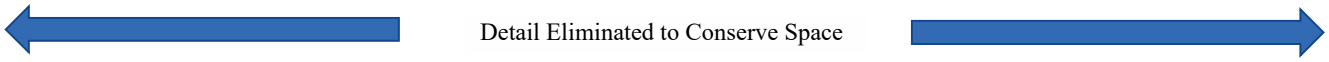
Receivables for securities are subject to factors periodically updated by the NAIC, based on a weighted average calculation of bonds, common and preferred stock receivables.

Lines (8) through (16)

The collateral from Schedule DB Part D Section 1 Column 4 Line 0999999999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet and will be subject to an RBC charge of 0.39%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line (9) will be assessed RBC based on their characteristics as an asset elsewhere in the RBC instructions.

Derivative instrument book/adjusted carrying value exposure net of collateral held on the balance sheet from Schedule DB Part D Section 1 Column **8** ~~7~~ Line 0999999**999**, for each NAIC designation, is subject to the bond RBC factor for that category to reflect the amount held on the balance sheet exposed to loss upon default of the Over the Counter (OTC-bilateral) counterparty, central clearinghouse or exchange. **Starting** ~~**For**~~ 2015, derivative balances subject to central clearing are to be included in Line (10) regardless of the category they are included in for the AVR. Acceptable collateral is subject to an RBC charge at the same level as NAIC 1 Bonds. ~~**The collateral from Schedule DB Part D Section 1 Column 4 Line 0999999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet and will be subject to an RBC charge of 0.4%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line 9 will be assessed RBC based on their**~~

characteristics as an asset elsewhere in the RBC instructions. "Acceptable collateral" means cash, cash equivalents, securities issued or guaranteed by the United States or Canadian governments or their government-sponsored enterprises, publicly traded obligations designated 1 by the NAIC, government money market mutual funds, and such other items as may be defined as acceptable collateral in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.



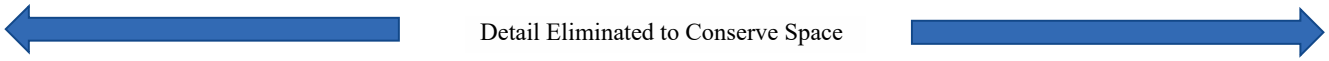
OFF-BALANCE SHEET AND OTHER ITEMS

LR017

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

Lines (3) through (14)
Noncontrolled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (12.1) and (13) include assets pledged as collateral reported in the General Interrogatories Part 1 Line **26.30** ~~25.30~~ and **26.31** ~~25.31~~ other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Line (12.2), include all collateral pledged, both cash and securities, to derivative counterparties and/or central clearinghouses for initial margin and variation margin. In addition, include securities collateral pledged as initial margin for futures. Line (12.2) should agree to Schedule DB Part D Section 2 Column 7, Line 0199999**999**. Line (12.3) should equal Line (12.1) minus Line (12.2). For Line (13) column 2 include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Line (13) column 2 also include an amount equal to the lessor of Statement Value of FHLB liabilities subject to C3P1 Cash Flow Testing or 5% of total net admitted assets. For Line (13) column (4), the Factor will be manually input. In most instances, the Factor will be based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with funding agreement activities exceed 5% of total net admitted assets. If the higher factor is applicable, the Factor for column 4 is calculated as a blended factor prorated such that collateral in column 3 supporting FHLB funding agreement liabilities in excess of the limit is subject to the factor for an NAIC 2 corporate bond (Line 14 Column 4). All other collateral in column 3 is subject to the factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB.

Lines (16) through (23)
The off-balance sheet exposure for derivative instruments reported on Schedule DB, Part D, Section 1, Column **13** ~~12~~, Lines 0199999**999** through 0899999**999**. Off-balance sheet exposure is reported for aggregate exchange traded derivatives, OTC – bilateral derivatives aggregated by counterparty brought into each individual NAIC designation 1-6, and aggregated centrally cleared derivatives. **Starting** ~~For~~ 2015, derivative balances subject to central clearing are to be included in Line (16) regardless of the category they are included in for Schedule DB, Part D, Section 1.



CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL
LR031

Basis of Factors

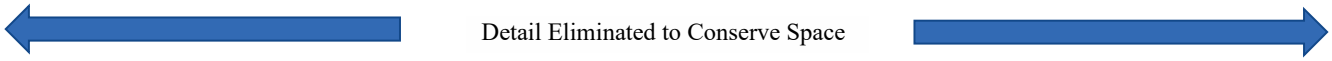
The purpose of the formula is to estimate the risk-based capital levels required to manage losses that can be caused by a series of catastrophic financial events. However, it is remote that all such losses will occur simultaneously. The covariance adjustment states that the combined effect of the C–1o, C-1cs, C–2 and C–3 and a portion of the C-4 risks are not equal to their sum but are equal to the square root calculation described below. It is statistically assumed that the C–1o risk and a portion of the C–3 risk are correlated, while the C-1cs risk, the C–2 risk, the balance of the C-3 risk and a portion of the C-4 risk are independent of both. The split of the C-3 and C-4 risks allows for general consistency with the health RBC formula. This assumption provides a reasonable approximation of the capital requirements needed at any particular level of losses.

The covariance formula is applied on Line (69) on LR031 before adding operational risk and Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII:

RBC after Covariance Before Operational Risk = C0 + C4a + Square Root of $[(C1o + C3a)^2 + (C\text{-}1cs + C\text{-}3c)^2 + (C2)^2 + (C3b)^2 + C4b)^2]$

Operational Risk:
Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge is intended to account for operational risks that are not already reflected in existing risk categories.

A Gross Operational Risk charge will be reported on Line **(70)** ~~**68**~~ using a percentage of RBC or "add-on" approach that will apply a risk factor of 3.00% to the amount reported in Line (69) – Total RBC after Covariance Before Operational Risk reported on page LR031. The result will represent an initial value of operational risk. Because the current C-4a risk charge is assumed to include some operational risk, a company's C-4a – Post Tax reported on Line (65) is offset against operational risk. A further reduction to the operational risk charge equal to the sum of the C-4a offset amounts reported by direct life RBC filing insurance subsidiaries (Page LR031, Lines (65 + 71)), adjusted for the percentage of ownership in the direct life insurance subsidiary, will be reported on Page LR031 in Line (71).



CALCULATION OF TOTAL ADJUSTED CAPITAL

(Including Total Adjusted Capital Tax Sensitivity Test)
LR033

The following instructions for the Calculation of Total Adjusted Capital will remain effective independent of the status of the sunset provision, Section 8, of AG 48 in a particular state or jurisdiction. This instruction will be considered for change once the amendment referenced in AG 48, Section 8, regarding credit for reinsurance, is adopted by the NAIC.

Basis of Factors

In determining the C–1 risk factors, availability of the AVR and voluntary investment reserves to absorb specific losses was not assumed. Therefore, the AVR is counted as capital for the purposes of the formula although it represents a liability and is not usable against general contingencies. The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. Voluntary investment reserves were eliminated from Total Adjusted Capital for the 1997 risk-based capital formula.

The annual statement provision for future dividends can provide a general cushion against potentially adverse future experience. As a reflection of this possible cushion, 50% of the annual statement dividend liability is included. However, when a block is reinsured, such credit to Total Adjusted Capital will not be allowed to either company unless the company has total control over the dividend decision and the full benefit of a change in the dividend scale flows to the company. A factor of 25% of the dividend liability is used in sensitivity testing.

Subsidiary amounts other than the carrying value of Alien Insurance Subsidiaries – Other, are included as appropriate recognizing that this surplus is included within the surplus of the parent. The carrying value of Alien Insurance Subsidiaries – Other should be excluded from the surplus of the parent for purposes of computing Total Adjusted Capital. Property and casualty subsidiaries should subtract all non-tabular discounts from surplus to arrive at the adjusted surplus figure. This adjustment to surplus was phased in over a five-year period by subtracting 20% of the non-tabular discount the first year and an additional 20% each year thereafter. Beginning with the 1998 risk-based capital formula, the adjustment to surplus is 100%. The same adjustment is made to the surplus of a life company having ownership of a property and casualty subsidiary.

The laws of certain states allow insurers to issue a form of capital instrument called a “capital note.” A credit is allowed to Total Adjusted Capital for a capital note that satisfies all of the following conditions:

1. In a liquidation, the capital note ranks with surplus notes and is subordinate to the claims of policyholders, claimants and general creditors.
2. The form and content of the capital note was approved by the commissioner of the insurer’s state of domicile.
3. At the time of issuance of the capital note, the aggregate principal amount did not exceed 25% of the Total Adjusted Capital (including the aggregate principal amount of outstanding capital and surplus notes) as of the end of the immediately preceding calendar year less the aggregate principal amount of outstanding capital and surplus notes.
4. The term of the capital note is not less than five years.
5. At the time of issuance of the capital note:
   a) The total principal amount of capital notes maturing in any one year did not exceed 5% of Total Adjusted Capital (measured at the time of issuance); and
   b) The total principal amount of capital notes maturing in any three-year period did not exceed 12% of Total Adjusted Capital (measured at the time of issuance).
6. Payment of interest, dividend or principal of the capital note is deferred if it would have caused:
   a) The insurer’s Total Adjusted Capital to drop below its Company Action Level Risk-Based Capital; or
   b) The insurer’s Total Adjusted Capital to drop below 125% of its Company Action Level Risk-Based Capital, and there is a negative trend on the Trend Test.

   However, upon request by the insurer, the commissioner of the insurer’s state of domicile may approve such payment if, in the commissioner’s judgment, the financial condition of the insurer warrants it.
7. The commissioner of the insurer’s state of domicile may halt all payments on the capital note if the insurer’s Total Adjusted Capital drops below three times

the principal amount of the capital and surplus notes the insurer has outstanding.

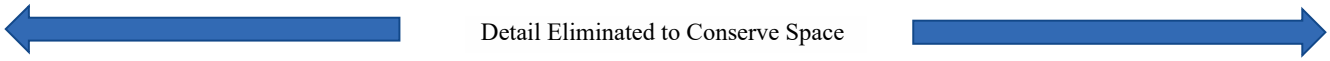
8. The capital note is treated as a liability in the computation of statutory surplus.
9. The insurer issuing the capital note is obligated to supply to the commissioner of the insurer's state of domicile an informational filing in a manner approved by the commissioner at the same time the insurer files its annual statement, and at such other times as the commissioner determines necessary. The filing shall include and be based on the following guidelines:
   a) The filing shall display the financial results of the criteria used to determine whether payments on the insurer's capital notes need be approved by the commissioner or may be halted by the commissioner. Further, it shall specifically identify those results that either necessitate commissioner approval of the payment or give the commissioner the option to halt payment.
   b) The insurer shall notify the Commissioner for informational purposes of each forthcoming payment under a capital note not less than ten business days prior to the date of payment, nor more than 30 business days prior to the date of payment.
   c) Whenever an insurer declares its intention to exercise the option to call or redeem a capital note prior to the scheduled maturity, the Commissioner shall be notified within five business days following the declaration, and not less than 10 business days prior to the declared redemption date. The 10-day period should be measured from the date of the commissioner's receipt of the notice.

The credit for a capital note is reduced as the note approaches maturity (as calculated on LR032 Capital Notes before Limitation). The aggregate credit for capital notes is limited so that the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-third of Total Adjusted Capital.

Total Adjusted Capital is to be reduced by the amount of all XXX/AXXX reinsurance RBC shortfalls.

Specific Instructions for Application of the Formula

Lines **11.1 ~~10.1~~ 11.4 ~~10.4~~, 14 ~~13~~, 15 ~~14~~ and 19 ~~18~~** are not applicable to Fraternal Benefit Societies.



AFFILIATED/SUBSIDIARY STOCKS

LR042, LR043 and LR044

Basis of Factors

There are ten categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those ten categories are:

1. Directly Owned U.S. Insurance Affiliates/Subsidiaries Subject to a Risk-Based Capital (RBC)-Look-Through Calculation
   a. Health Insurance Company or Health Entity
   b. Property and Casualty Insurance Company
   c. Life Insurance Company
2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries Subject to RBC-Look-Through Calculation
   a. Health Insurance Company or Health Entity
   b. Property and Casualty Insurance Company
   c. Life Insurance Company
3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries
4. Investment Subsidiaries
5. Directly Owned Alien Insurance Affiliates/Subsidiaries
   a. Health Insurance Company or Health Entity
   b. Property and Casualty Insurance Company
   c. Life Insurance Company
6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
   a. Health Insurance Company or Health Entity
   b. Property and Casualty Insurance Company
   c. Life Insurance Company
7. Investments in Upstream Affiliate (Parent)
8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
   a. Health Insurance Companies and Health Entities Not Subject to RBC
   b. Property and Casualty Insurance Companies Not Subject to RBC
   c. Life Insurance Companies Not Subject to RBC
9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC
   a. Entities with a capital requirement imposed by a regulatory body
   b. Other Financial Entities without regulatory capital requirements
   c. Non-financial entities
10. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

Enter applicable items for each affiliate/subsidiary in the Details for Affiliated/Subsidiary Stocks worksheet. The program will automatically calculate the risk-based capital charge for each affiliate/subsidiary. When the data is uploaded to the NAIC database, it will be cross-checked and the company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The RBC report will display the number of affiliates/subsidiaries. These numbers should be reviewed to ensure that all affiliates/subsidiaries are appropriately reported.

The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 4409999999 plus Schedule D, Part 2, Section 2, Line 5979999999 and should also equal Schedule D, Part 6, Section 1, Line 0999999 plus Line 1899999.

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Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer. Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

Directly owned insurance and health entity affiliates/subsidiaries are affiliates/subsidiaries in which the reporting company owns the stock of the affiliate/subsidiary. Indirectly owned insurance affiliates/subsidiaries and health entities are those where the reporting company owns stock in a holding company, which in turn owns the stock of the insurance affiliate/subsidiary or health entity. Note that there could be multiple holding companies that control the downstream insurance company.

Enter the book/adjusted carrying value of: the common stock in Column (5), the preferred stock in Column (7), the total outstanding common stock in Column (6) and the total outstanding preferred stock of that affiliate/subsidiary in Column (8) of the appropriate worksheet. The percentage of ownership is calculated by summing the book/adjusted carrying values of the owned preferred stock and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

Insurance Affiliate/Subsidiaries that are Subject to RBC

1. Directly Owned U.S. Affiliates/Subsidiaries:

The risk-based capital requirement for the reporting company for those insurance affiliates/subsidiaries that are subject to a risk-based capital requirement is based on the Total Risk-Based Capital After Covariance of the affiliate/subsidiary, prorated for the percent of ownership of that affiliate/subsidiary.
For purposes of Subsidiary Risk all references to Total Risk-Based Capital After Covariance of the affiliate/subsidiary means:

a. For a Health affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (XR024, Line (41));
b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line (60)); and
c. For a Life affiliate/subsidiary RBC filing, the sum of
    (a) Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (69); and
    (b) Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (73)).

For RBC purposes, the reporting insurer must determine the carrying value and the RBC requirement of directly owned RBC filing affiliate/subsidiary company, even if the RBC filing affiliate/subsidiary is non-admitted. The value reported in annual statement Schedule D, Part 6, Section 1 should be used for RBC purposes. In addition to RBC, the carrying value of the RBC filer must be reported in total adjusted carrying value for RBC purposes, in order to appropriately balance the numerator with the addition of the denominator value. Enter the carrying value of the insurer as an additional amount in line **(8)** ~~(6)~~ of the Calculation of Total Adjusted Capital page to satisfy these instructions.

Equity method Insurance Affiliates/Subsidiaries: Equity method is defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 8.b. as the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill*. For those insurance Affiliates/Subsidiaries of the reporting company that are reported under the equity method, the C_0 charge of the ownership of the common and preferred stock in these Affiliates/Subsidiaries is limited to the lesser of:

- (a) the Total RBC After Covariance of the affiliate/subsidiary times the percentage of ownership, which is the total of common stock and preferred stock; or
- (b) the common and preferred stock book/adjusted carrying value at which the affiliate/subsidiary is carried.

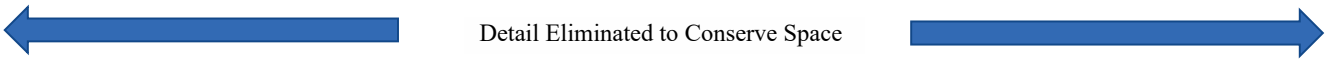
Market Value (including discounted market value) Insurance Affiliates/Subsidiaries (See SSAP No. 97, paragraph 8.a.): See 10 below.

2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries

For Indirectly Owned U.S. Insurance Affiliates/Subsidiaries, the carrying value and RBC is calculated in the same manner as for directly owned U.S. Insurance Affiliates/Subsidiaries. The RBC for the indirect affiliates/subsidiaries must be calculated prior to completing this RBC report.

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned RBC filer may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an RBC filer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must "look-through" all intermediate holding and subsidiary companies to determine the carrying value and the RBC requirement of indirectly owned RBC filing affiliate/subsidiary company. This involves drilling down to the first RBC filing insurance affiliate/subsidiary and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both RBC and carrying value of the RBC filer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line **(8)** ~~**XXX**~~ of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value for each indirect insurance affiliate/subsidiary is established based on company records using the statutory value of the insurer as reported in the NAIC annual financial statement blank submitted by the affiliate/subsidiary or market value when applicable, and the RBC requirement as determined in its RBC Report adjusted for the ownership percentages (both the percentage of the indirectly owned RBC filing affiliate/subsidiary that is owned by the directly held downstream holding company and the reporting insurer's ownership percentage in that downstream entity). The value reported by the downstream holding company for the U.S. RBC filing insurer is the same as the statutory value established for the insurer on a look-through basis.



10. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

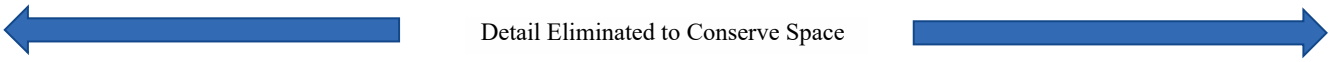
The risk-based capital for a publicly traded insurance affiliate/subsidiary held at market value after any "discount," is calculated in two parts. First, calculate and report the risk-based capital of the affiliate/subsidiary according to the relevant instructions above for Insurance Affiliates/Subsidiaries that are Subject to a RBC-look-through Calculation. Second, calculate the additional risk-based capital charge as 34.6% pre-tax of any excess of the market (statement) value over the book value of the affiliate/subsidiary. The result of the second calculation will be added to the C-1o component.

Report information regarding any publicly traded insurance affiliate/subsidiary held at market value. The reported market value of common stock should be the same as shown Schedule D, Part 2, Section 2, Column **7** ~~**8**~~, Line 5919999999 plus Line 5929999999. The market value of preferred stock should be the same as shown in Schedule D, Part 2, Section 1, Column **8** ~~**10**~~, line 4319999999 plus 4329999999. The reported book value of common stock should be the same as shown in Schedule D, Part 2, Section 2, Column **5** ~~**6**~~, Line 5919999999 plus Line 5929999999. The reported book value of preferred stock should be the same as Schedule D, Part 2, Section 1, Column **6** ~~**8**~~, Line 4319999999 plus 4329999999.

APPENDIX A ~~3~~— EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column **6 9**) by the percentage of ownership (found in Schedule D – Part 6 –Section 1, Column **10 ~~12~~**). For example:

Subsidiary Insurance Company	Owner's Book / Adjusted Carrying Value	Percentage Ownership	Total Stock Outstanding
Subsidiary #1	$1,000,000	100%	$1,000,000
Subsidiary #2	$1,000,000	75%	$1,333,333
Subsidiary #3	$1,000,000	50%	$2,000,000
Subsidiary #4	$1,000,000	25%	$4,000,000
Subsidiary #5	$1,000,000	10%	$10,000,000



MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

Detail Eliminated to Conserve Space

Specific Instructions for Application of the Formula

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded - Bonds C-1o
LR045

Column 4
Enter by reinsurer, the amount of C-1o RBC the insurance company has ceded that is attributable to bonds. The "total" should equal the total amount of the reduction in C-1o RBC shown on Line (19) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed - Bonds C-1o
LR046

Column 4
Enter by ceding company, the amount of C-1o RBC the insurance company has assumed that is attributable to bonds. The "total" should equal the total amount of the increase in C-1o RBC shown on Line (20) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded – All Other Assets C-0, C-1o And C-1cs
LR047

Column 4
Enter by reinsurer, the amount of C-0, C-1o And C-1cs RBC the company has ceded that is attributable to all assets except bonds. The "total" should equal the total amount of the reduction of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. **Specifically, LR047 Column (4), Line (9999999) should equal the sum of ~~LR002 Column (2) Line (19),~~ LR004 Column (6) Line (29), LR005 Column (5) Line (8) and (19), LR006 Column (3) Line (5), LR007 Column (3) Line (11) and (23), LR008 Column (5) Line (9), Line (19), Line (29), Line (39), Line (45) and Line (55), LR009 Column (6) Line (22), LR012 Column (2) Line (19) and LR017 Column (5) Line (28).**

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs
LR048

Column 4
Enter by ceding company, the amount of C-0, C-1o And C-1cs RBC the insurance company has assumed that is attributable to all assets except bonds. The "total" should equal the total amount of the increase in C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. **Specifically, LR048 Column (4), Line (9999999) should equal the sum of ~~LR002 Column (2) Line (20),~~ LR004 Column (6) Line (30), LR005 Column (5) Line (9) and (20), LR006 Column (3) Line (6), LR007 Column (3) Line (12) and (24), LR008 Column (5) Line (10), Line (20), Line (30), Line (40), Line (46) and Line (56), LR009 Column (6) Line (23), LR012 Column (2) Line (20) and LR017 Column (5) Line (29).**

Detail Eliminated to Conserve Space

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BONDS

	SVO Bond Designation Category	Annual Statement Source	(1) Book / Adjusted Carrying Value		Factor		(2) RBC Requirement
	Long Term Bonds						
(1)	Exempt Obligations	AVR Default Component Column 1 Line 1		X	0.0000	=	
(2.1)	NAIC Designation Category 1.A	AVR Default Component Column 1 Line 2.1		X	0.00158	=	
(2.2)	NAIC Designation Category 1.B	AVR Default Component Column 1 Line 2.2		X	0.00271	=	
(2.3)	NAIC Designation Category 1.C	AVR Default Component Column 1 Line 2.3		X	0.00419	=	
(2.4)	NAIC Designation Category 1.D	AVR Default Component Column 1 Line 2.4		X	0.00523	=	
(2.5)	NAIC Designation Category 1.E	AVR Default Component Column 1 Line 2.5		X	0.00657	=	
(2.6)	NAIC Designation Category 1.F	AVR Default Component Column 1 Line 2.6		X	0.00816	=	
(2.7)	NAIC Designation Category 1.G	AVR Default Component Column 1 Line 2.7		X	0.01016	=	
(2.8)	Subtotal NAIC 1	Sum of Lines (2.1) through (2.7)					
(3.1)	NAIC Designation Category 2.A	AVR Default Component Column 1 Line 3.1		X	0.01261	=	
(3.2)	NAIC Designation Category 2.B	AVR Default Component Column 1 Line 3.2		X	0.01523	=	
(3.3)	NAIC Designation Category 2.C	AVR Default Component Column 1 Line 3.3		X	0.02168	=	
(3.4)	Subtotal NAIC 2	Sum of Lines (3.1) through (3.3)					
(4.1)	NAIC Designation Category 3.A	AVR Default Component Column 1 Line 4.1		X	0.03151	=	
(4.2)	NAIC Designation Category 3.B	AVR Default Component Column 1 Line 4.2		X	0.04537	=	
(4.3)	NAIC Designation Category 3.C	AVR Default Component Column 1 Line 4.3		X	0.06017	=	
(4.4)	Subtotal NAIC 3	Sum of Lines (4.1) through (4.3)					
(5.1)	NAIC Designation Category 4.A	AVR Default Component Column 1 Line 5.1		X	0.07386	=	
(5.2)	NAIC Designation Category 4.B	AVR Default Component Column 1 Line 5.2		X	0.09535	=	
(5.3)	NAIC Designation Category 4.C	AVR Default Component Column 1 Line 5.3		X	0.12428	=	
(5.4)	Subtotal NAIC 4	Sum of Lines (5.1) through (5.3)					
(6.1)	NAIC Designation Category 5.A	AVR Default Component Column 1 Line 6.1		X	0.16942	=	
(6.2)	NAIC Designation Category 5.B	AVR Default Component Column 1 Line 6.2		X	0.23798	=	
(6.3)	NAIC Designation Category 5.C	AVR Default Component Column 1 Line 6.3		X	0.30000	=	
(6.4)	Subtotal NAIC 5	Sum of Lines (6.1) through (6.3)					
(7)	NAIC 6	AVR Default Component Column 1 Line 7		X	0.30000	=	
(8)	Total Long-Term Bonds	Sum of Lines (1) + (2.8) + (3.4) + (4.4) + (5.4) + (6.4) + (7)					
	(Column (1) should equal Page 2 Column 3 Line 1 + Schedule DL Part 1 Column 6 Line 2009999999 ~~2509999999~~)						

LR002

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	Short Term and Cash Equivalent Bonds					
(9)	Exempt Obligations	AVR Default Component Column 1 Line 18 + Schedule E, Part 2, Column 7, Line 0019999999		X	0.00000	=
(10.1)	NAIC Designation Category 1.A	AVR Default Component Column 1 Line 19.1 + Schedule E, Part 2, Footnote L000001A, Amount 1 - Schedule E, Part 2, Column 7, Line 0019999999		X	0.00158	=
(10.2)	NAIC Designation Category 1.B	AVR Default Component Column 1 Line 19.2 + Schedule E, Part 2, Footnote L000001A, Amount 2		X	0.00271	=
(10.3)	NAIC Designation Category 1.C	AVR Default Component Column 1 Line 19.3 + Schedule E, Part 2, Footnote L000001A, Amount 3		X	0.00419	=
(10.4)	NAIC Designation Category 1.D	AVR Default Component Column 1 Line 19.4 + Schedule E, Part 2, Footnote L000001A, Amount 4		X	0.00523	=
(10.5)	NAIC Designation Category 1.E	AVR Default Component Column 1 Line 19.5 + Schedule E, Part 2, Footnote L000001A, Amount 5		X	0.00657	=
(10.6)	NAIC Designation Category 1.F	AVR Default Component Column 1 Line 19.6 + Schedule E, Part 2, Footnote L000001A, Amount 6		X	0.00816	=
(10.7)	NAIC Designation Category 1.G	AVR Default Component Column 1 Line 19.7 + Schedule E, Part 2, Footnote L000001A, Amount 7		X	0.01016	=
(10.8)	Subtotal NAIC 1	Sum of Lines (10.1) through (10.7)				
(11.1)	NAIC Designation Category 2.A	AVR Default Component Column 1 Line 20.1 + Schedule E, Part 2, Footnote L000001B, Amount 1		X	0.01261	=
(11.2)	NAIC Designation Category 2.B	AVR Default Component Column 1 Line 20.2 + Schedule E, Part 2, Footnote L000001B, Amount 2		X	0.01523	=
(11.3)	NAIC Designation Category 2.C	AVR Default Component Column 1 Line 20.3 + Schedule E, Part 2, Footnote L000001B, Amount 3		X	0.02168	=
(11.4)	Subtotal NAIC 2	Sum of Lines (11.1) through (11.3)				
(12.1)	NAIC Designation Category 3.A	AVR Default Component Column 1 Line 21.1 + Schedule E, Part 2, Footnote L000001C, Amount 1		X	0.03151	=
(12.2)	NAIC Designation Category 3.B	AVR Default Component Column 1 Line 21.2 + Schedule E, Part 2, Footnote L000001C, Amount 2		X	0.04537	=
(12.3)	NAIC Designation Category 3.C	AVR Default Component Column 1 Line 21.3 + Schedule E, Part 2, Footnote L000001C, Amount 3		X	0.06017	=
(12.4)	Subtotal NAIC 3	Sum of Lines (12.1) through (12.3)				
(13.1)	NAIC Designation Category 4.A	AVR Default Component Column 1 Line 22.1 + Schedule E, Part 2, Footnote L000001D, Amount 1		X	0.07386	=
(13.2)	NAIC Designation Category 4.B	AVR Default Component Column 1 Line 22.2 + Schedule E, Part 2, Footnote L000001D, Amount 2		X	0.09535	=
(13.3)	NAIC Designation Category 4.C	AVR Default Component Column 1 Line 22.3 + Schedule E, Part 2, Footnote L000001D, Amount 3		X	0.12428	=
(13.4)	Subtotal NAIC 4	Sum of Lines (13.1) through (13.3)				
(14.1)	NAIC Designation Category 5.A	AVR Default Component Column 1 Line 23.1 + Schedule E, Part 2, Footnote L000001E, Amount 1		X	0.16942	=
(14.2)	NAIC Designation Category 5.B	AVR Default Component Column 1 Line 23.2 + Schedule E, Part 2, Footnote L000001E, Amount 2		X	0.23798	=
(14.3)	NAIC Designation Category 5.C	AVR Default Component Column 1 Line 23.3 + Schedule E, Part 2, Footnote L000001E, Amount 3		X	0.30000	=
(14.4)	Subtotal NAIC 5	Sum of Lines (14.1) through (14.3)				
(15)	NAIC 6	AVR Default Component Column 1 Line 24 + Schedule E, Part 2, Footnote L000001F, Amount 1		X	0.30000	=
(16)	Total Short-Term and Cash Equivalent Bonds (Column (1) should equal Schedule DA Part 1 Column 6 ~~=~~ Line 0509999999 ~~2509999999 +~~ Schedule DL Part 1 Column 6 Line 9509999999 + Schedule E Part 2 Column 7 Line 0509999999 ~~LR012 Miscellaneous Assets Column (1) Line (2.2)~~)	Sum of Lines (9) + (10.8) + (11.4) + (12.4) + (13.4) + (14.4) + (15)				
(17)	Total Long-Term and Short-Term Bonds (pre-MODCO/Funds Withheld)	Line (8) + (16)				
(18)	Credit for Hedging	LR014 Hedged Asset Bond Schedule Column 13 Line (0399999)				
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	LR045 Modco or Funds Withheld Reinsurance Ceded - Bonds C-1o Column (4) Line (9999999)				
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	LR046 Modco or Funds Withheld Reinsurance Assumed - Bonds C-1o Column (4) Line (9999999)				
(21)	Total Long-Term and Short-Term Bonds (including MODCO/FundsWithheld and Credit for Hedging adjustments.)	Lines (17) - (18) - (19) + (20)				
(22)	Non-exempt U.S. Government Agency Bonds	Schedule D Part 1 Section 1 and Section 2 ~~,and~~ Schedule DA Part 1 and Schedule E Part 2, in part?		X	0.00158	=
(23)	Bonds Subject to Size Factor	Line (21) - Line (1) - Line (9) - Line (22)				
(24)	Number of Issuers	Company Records				
(25)	Size Factor for Bonds					
(26)	Bonds Subject to Size Factor after the Size Factor is Applied	Line (23) x Line (25)				
(27)	Total Bonds	Line (22) + Line (26)				

LR002

Attachment Five

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† Only investments in U.S. Government agency bonds previously reported in Lines (2.8) and (10.8), net of those included on Line (19), plus the portion of Line (20) attributable to ceding companies' Lines (2.8) and (10.8) should be included on Line (22). No other bonds should be included on this line. Exempt U.S. Government bonds shown on Lines (1) and (9) should not be included on Line (22). Refer to the bond section of the risk-based capital instructions for more clarification.

Denotes items that must be manually entered on the filing software.

LR002

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UNAFFILIATED PREFERRED AND COMMON STOCK

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Less Affiliated Preferred Stock Without AVR	(3) RBC Subtotal	(4) Factor	(5) RBC Requirement
	Unaffiliated Preferred Stock						
(1)	Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10				X 0.0039 =	
(2)	Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11				X 0.0126 =	
(3)	Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12				X 0.0446 =	
(4)	Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13				X 0.0970 =	
(5)	Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14				X 0.2231 =	
(6)	Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15				X 0.300 =	
(7)	Total Unaffiliated Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (6)					
	(Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16.)						
	(Column (2) should equal Schedule D Summary by Country Column 1 Line 22 ~~18~~ less Asset Valuation Reserve Default Component Column 1 Line 16.)						
(8)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(9)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(10)	Total Unaffiliated Preferred Stock (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)					
	Unaffiliated Common Stock						
(11)	Total Common Stock	Schedule D Summary Column 1 Line 29 ~~25~~					
(12)	Less Affiliated Common Stock	Schedule D Summary Column 1 Line 28 ~~24~~					
(13)	Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records					
(14)	Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3				X 0.011 =	
(15)	Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2				X 0.300 =	
(16)	Net Other Unaffiliated Public Common Stock	Lines (11) - (12) - (13) - (14) - (15)				X † =	
(17)	Total Admitted Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Lines (14) + (15) + (16)					
	(Column 1 should equal Schedule D Summary by Country Column 1 Line 29 ~~25~~ less Line 28 ~~24~~ less Line (13))						
(18)	Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line (0299999)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Admitted Unaffiliated Common Stock (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)					

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Denotes items that must be manually entered on the filing software.

LR005

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OTHER LONG-TERM ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Fixed Income - Bonds						
(1)	Exempt Obligations	AVR Equity Component Column 1 Line 22				X 0.0000 =	
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line 23				X 0.0039 =	
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line 24				X 0.0126 =	
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line 25				X 0.0446 =	
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line 26				X 0.0970 =	
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line 27				X 0.2231 =	
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line 28				X 0.3000 =	
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)					
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)					
	Schedule BA - Fixed Income - Preferred Stock						
~~(12.1)~~	~~Asset NAIC 1~~	~~AVR Equity Component Column 1 Line 30~~					
~~(12.2)~~	~~Less Rated/Designated NAIC 1 Surplus Notes and Capital Notes~~	~~Column (1) Line (22) + Column (1) Line (32)~~					
~~(12)~~ ~~(12.3)~~	~~Net~~ Asset NAIC 1	AVR Equity Component Column 1 Line 30 ~~Line (12.1) – (12.2)~~				X 0.0039 =	
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line 31				X 0.0126 =	
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line 32				X 0.0446 =	
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line 33				X 0.0970 =	
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line 34				X 0.2231 =	
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line 35				X 0.3000 =	
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12.3) through (17)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

Denotes items that must be manually entered on the filing software.

LR008

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OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Rated Surplus Notes Classified by Designation Equivalent						
(22)	Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0039 =	
(23)	Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0126 =	
(24)	Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0446 =	
(25)	Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0970 =	
(26)	Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.2231 =	
(27)	Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.3000 =	
(28)	Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)					
(29)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(30)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(31)	Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)					
	Rated Capital Notes Classified by Designation Equivalent						
(32)	Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0039 =	
(33)	Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0126 =	
(34)	Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0446 =	
(35)	Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0970 =	
(36)	Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.2231 =	
(37)	Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.3000 =	
(38)	Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)					
(39)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(40)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(41)	Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

Denotes items that must be manually entered on the filing software.

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OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000 =	
(44)	Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47)	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
	Schedule BA - All Other						
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000 =	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)				X 0.3000 =	
(50)	Schedule BA Collateral Loans	**AVR Equity Component Column 1 Line 112, in part**				X 0.0680 =	
(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line **92**				X **0.4500** =	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line **113**				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line **114**				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1)	Other Schedule BA Assets, **including Surplus Notes and Capital Notes**	AVR Equity Component Column 1 Line **99 + 115**					
(53.2)	Less NAIC **1** ~~2~~ thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines **(22)** ~~(23)~~ through (27) + Column (1) Lines (32) ~~(33)~~ through (37)					
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

LR008

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SCHEDULE BA MORTGAGES

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡	(5) Average Factor	(6) RBC Requirement
	In Good Standing							
(1)	Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX	X 0.0014	=
(2)	Affiliated Mortgages - Residential - All Other	AVR Equity Component Column 1 Line 44				XXX	X 0.0068	=
(3)	Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX	X *	=
(4)	Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX	X 0.0090	=
(5)	Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX	X 0.0175	=
(6)	Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX	X 0.0300	=
(7)	Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX	X 0.0090	=
(8)	Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX	X 0.0175	=
(9)	Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX	X 0.0300	=
(10)	Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX	X 0.0500	=
(11)	Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX	X 0.0750	=
(12)	Total In Good Standing	Sum of Lines (1) through (11)						
	90 Days Overdue, Not in Process of Foreclosure							
(13)	Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				XXX	X 0.0027	=
(14)	All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				XXX	X 0.1100	=
(15)	All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 46 + Line 48 + Line 50				XXX	X 0.1100	=
(16)	Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)						
	In Process of Foreclosure							
(17)	Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				XXX	X 0.0054	=
(18)	All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				XXX	X 0.1300	=
(19)	All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 51 + Line 53 + Line 55				XXX	X 0.1300	=
(20)	Total In Process of Foreclosure	Lines (17) + (18) + (19)						
(21)	Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)						
(22)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(23)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(24)	Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)						

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

Denotes items that must be manually entered on the filing software.

LR009

Company Name | Confidential when Completed | NAIC Company Code

MISCELLANEOUS ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value		Factor		(2) RBC Requirement
	Miscellaneous						
(1)	Cash	Page 2 Line 5, inside amount 1		X	0.0039	=	
(2.1)	Cash Equivalents	Page 2 Line 5, inside amount 2					
(2.2)	Less Cash Equivalent Bonds Already Included with Page LR002 Bonds	Schedule E Part 2 Column 7 Line 0509999999~~, in part~~					
(2.3)	Less Exempt Money Market Mutual Funds	Sch E, Part 2, Column 7, L8209999999					
(2.4)	Net Cash Equivalents	Line (2.1) - Line (2.2) - Line (2.3)		X	0.0039	=	
(3.1)	Short-Term Investments	Page 2 Line 5, inside amount 3					
(3.2)	Less Short-Term Bonds	Schedule DA Part 1 Column ~~6~~ 7 Line 0509999999 ~~2509999999~~					
(3.3)	Net Short-Term Investments	Lines (3.1) - (3.2)		X	0.0039	=	
(4)	Premium Notes	Page 2 Line 6 first inside amount		X	0.068	=	
(5)	Receivable for Securities	Page 2 Column 3 Line 9		X	0.016	=	
(6.1)	Aggregate Write-ins for Invested Assets	Page 2 Column 3 Line 11					
(6.2)	Less Derivative Collateral Receivable	Page 2 Column 3 Line 11, Derivatives Collateral Receivable reported as part of total					
(6.3)	Net Write-ins for Invested Assets	Line (6.1) - Line (6.2)		X	0.068	=	
(7)	Total Miscellaneous Excluding Derivative Instruments	Lines (1) + (2.4) + (3.3) + (4) + (5) + (6.3)					
	Derivative Instruments						
(8)	Collateral – Off Balance Sheet	Schedule DB Part D Section 1 Column 4 Line 0999999999, in part		X	0.0039	=	
(9)	Collateral – On Balance Sheet	Schedule DB Part D Section 1 Column 4 Line 0999999999, in part		X	0.000	=	
(10)	Exchange Traded and Centrally Cleared	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.0039	=	
(11)	Over the Counter NAIC 1	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.0039	=	
(12)	Over the Counter NAIC 2	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.0126	=	
(13)	Over the Counter NAIC 3	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.0446	=	
(14)	Over the Counter NAIC 4	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.0970	=	
(15)	Over the Counter NAIC 5	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.2231	=	
(16)	Over the Counter NAIC 6	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X	0.3000	=	
(17)	Total Derivative Instruments	Sum of Lines (8) through (16)					
(18)	Total Miscellaneous Assets (pre-MODCO/Funds Withheld)	Lines (7) + (17)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Miscellaneous Assets (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

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LR012

Company Name | Confidential when Completed | NAIC Company Code

OFF-BALANCE SHEET AND OTHER ITEMS

		Annual Statement Source	(1) Statement Value	(2) Less Noncontrolled Assets Funding Guaranteed Separate Accounts, Synthetic GIC's and Certain FHLB Liabilities	(3) Subtotal	(4) Factor	(5) RBC Requirement	(6) Yes/No Response
	Noncontrolled Assets							
(1)	Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 25.04				X 0.0020		
(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05				X 0.0126		
(3)	Subject to Repurchase Agreements	General Interrogatories Part 1 Line 26.21				X 0.0126		
(4)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22				X 0.0126		
(5)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23				X 0.0126		
(6)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24				X 0.0126		
(7)	Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25				X 0.0126		
(8)	Letter Stock or Other Securities Restricted as to sale - excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26				X 0.0126		
(9)	FHLB Capital Stock	General Interrogatories Part 1 Line 26.27				X 0.0126		
(10)	On Deposit with States	General Interrogatories Part 1 Line 26.28				X 0.0126		
(11)	On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29				X 0.0126		
(12.1)	Pledged as Collateral - excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30						
(12.2)	Less Derivative Collateral Pledged	Schedule DB Part D Section 2 Column 7, Line 0199999999				X 0.0039		
(12.3)	Pledged as Collateral - excluding Collateral Pledged to an FHLB Less Derivatives Collateral Pledged	Line (12.1) - (12.2)				X 0.0126		
(13)	Pledged as Collateral to FHLB - including Assets Backing Funding Agreements	General Interrogatories Part 1 Line 26.31		†		X #		
(14)	Other	General Interrogatories Part 1 Line 26.32				X 0.0126		
(15)	Total Noncontrolled Assets	Sum of Lines (1) through (11) Plus Lines (12.2) through (14)						
	Derivative Instruments							
(16)	Exchange Traded and Centrally Cleared	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.0039		
(17)	Off-Balance Sheet Exposure NAIC 1	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.0039		
(18)	Off-Balance Sheet Exposure NAIC 2	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.0126		
(19)	Off-Balance Sheet Exposure NAIC 3	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.0446		
(20)	Off-Balance Sheet Exposure NAIC 4	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.0970		
(21)	Off-Balance Sheet Exposure NAIC 5	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.2231		
(22)	Off-Balance Sheet Exposure NAIC 6	Schedule DB Part D Section 1 Column ~~13~~ 12, Line 0999999999, in part				X 0.3000		
(23)	Total Derivative Instruments Off-Balance Sheet Exposure	Sum of Lines (16) through (22)						
(24)	Guarantees for Affiliates	Notes to Financial Statements Number 14A3c1				X 0.0126		
(25)	Contingent Liabilities	Notes to Financial Statements Number 14A1				X 0.0126		
(26)	Long Term Leases	Notes to Financial Statements Number 15A2a1				X 0.0000		
(27)	Total Off-Balance Sheet Items (pre-MODCO/Funds Withheld)	Lines (15) + (23) + (24) + (25) + (26)						
(28)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(29)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(30)	Total Off-Balance Sheet Items (including MODCO/Funds Withheld.)	Lines (27) - (28) + (29)						
	Other Items							
(31)	Is the entity responsible for filing the U.S. Federal income tax return for the reporting insurer a regulated insurance company?	"Yes", "No" or "N/A" in Column (6)						
(32)	SSAP No. 101 Paragraph 11a Deferred Tax Assets	Notes to Financial Statements Item 9A2(a)				X ‡		
(33)	SSAP No. 101 Paragraph 11b Deferred Tax Assets	Notes to Financial Statements Item 9A2(b)				X 0.0100		
(34)	Total Off-Balance Sheet and Other Items	Line (30) + Line (32) + Line (33)						

† For Column (2) Line (13), include assets pledged as collateral other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Column (2) include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Column (2) also include an amount equal to the lessor of Statement Value of FHLB liabilities subject to C3P1 Cash Flow Testing or 5% of total net admitted assets.

‡ If Line (31) Column (6) is "Yes", then the factor is 0.005. If Line (31) Column (6) is "No", then the factor is 0.010. If Line (31) Column (6) is "N/A", then the factor is 0.000.

\# In most instances, apply a factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with spread-lending activities exceed 5% of total net admitted assets. This higher factor shall equal the factor for a Baa corporate bond asset factor (Line 14 Column 4). If the higher factor is applicable, the blended factor for column 4 shall be prorated based on the collateral in column 3 subject to the typical factor (i.e. liquidity and spread-lending below the limit) and the higher factor (only spread-lending above the limit).

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LR017

Company Name | Confidential when Completed | NAIC Company Code

BUSINESS RISK

		Annual Statement Source	(1) Statement Value		Factor		(2) RBC Requirement
	Life Insurance Premiums						
(1)	Total Life Premiums	Schedule T Column 2 Line 59					
(2)	Less American Samoa Life Premiums	Schedule T Column 2 Line 52					
(3)	Less Guam Life Premiums	Schedule T Column 2 Line 53					
(4)	Less Puerto Rico Life Premiums	Schedule T Column 2 Line 54					
(5)	Less U.S. Virgin Islands Life Premiums	Schedule T Column 2 Line 55					
(6)	Less Northern Mariana Islands Life Premiums	Schedule T Column 2 Line 56					
(7)	Less Canada Life Premiums	Schedule T Column 2 Line 57					
(8)	Less Other Alien Life Premiums	Schedule T Column 2 Line 58					
(9)	Subtotal Net Life Premiums	Line (1) less the Sum of Lines (2) through (8)					
(10)	Plus Foreign Variable and Other Life Premiums	See Instructions†					
(11)	Less Total Variable and Other Life Premiums	See Instructions†					
(12)	Net Life Premiums	Line (9) plus Line (10) less Line (11)		X	0.0253	=	
	Annuity Considerations						
(13)	Total Annuity Considerations	Schedule T Column 3 Line 59					
(14)	Less American Samoa Annuity Considerations	Schedule T Column 3 Line 52					
(15)	Less Guam Annuity Considerations	Schedule T Column 3 Line 53					
(16)	Less Puerto Rico Annuity Considerations	Schedule T Column 3 Line 54					
(17)	Less U.S. Virgin Islands Annuity Considerations	Schedule T Column 3 Line 55					
(18)	Less Northern Mariana Islands Annuity Considerations	Schedule T Column 3 Line 56					
(19)	Less Canada Annuity Considerations	Schedule T Column 3 Line 57					
(20)	Less Other Alien Annuity Considerations	Schedule T Column 3 Line 58					
(21)	Subtotal Net Annuity Considerations	Line (13) less the Sum of Lines (14) through (20)					
(22)	Plus Foreign Variable and Other Annuity Considerations	See Instructions†					
(23)	Less Total Variable and Other Annuity Considerations	See Instructions†					
(24)	Net Annuity Considerations	Line (21) plus Line (22) less Line (23)		X	0.0253	=	
	Accident and Health Premiums						
(25)	Total Accident and Health Premiums	Schedule T Column 4 Line 59					
(26)	Less American Samoa Accident and Health Premiums	Schedule T Column 4 Line 52					
(27)	Less Guam Accident and Health Premiums	Schedule T Column 4 Line 53					
(28)	Less Puerto Rico Accident and Health Premiums	Schedule T Column 4 Line 54					
(29)	Less U.S. Virgin Islands Accident and Health Premiums	Schedule T Column 4 Line 55					
(30)	Less Northern Mariana Islands Accident and Health Premiums	Schedule T Column 4 Line 56					
(31)	Less Canada Accident and Health Premiums	Schedule T Column 4 Line 57					
(32)	Less Other Alien Accident and Health Premiums	Schedule T Column 4 Line 58					
(33)	Subtotal Net Accident and Health Premiums	Line (25) less the Sum of Lines (26) through (32)					
(34)	Plus Foreign Variable and Other A&H Premiums	See Instructions†					
(35)	Less Total Variable and Other A&H Premiums	See Instructions†					
(36)	Net Accident and Health Premiums	Line (33) plus Line (34) less Line (35)		X	0.0063	=	

† Enter amounts only if included in Schedule T Column 2 (life), Column 3 (annuity) or Column 4 (accident and health).

Denotes items that must be manually entered on the filing software.

LR029

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BUSINESS RISK (CONTINUED)

		Annual Statement Source	(1) Statement Value		Factor		(2) RBC Requirement
	Separate Account Liabilities						
(37)	Total Liabilities from Separate Accounts Statement	Page 3 Column 1 Line 27					
(38)	Transfers to Separate Accounts Due or Accrued	Page 3 Column 1 Line 13					
(39)	Total Separate Account Liabilities	Line (37) plus Line (38)		X	0.0006	=	
(40)	Business Risk (C-4a)	Lines (12) + (24) + (36) + (39)					
	Administrative Expenses for Certain A&H Coverages						
(41)	Total Accident and Health Premiums	LR019 Health Premiums Column (1) Line (33)					
(42)	Accident and Health Premiums from Underwriting Risk	LR020 Underwriting Risk Column (5) Line (1.3)					
(43)	Accident and Health Premiums Factor	Line (42) / Line (41)					
(44)	Exhibit 2 Administrative Expenses for Health Insurance	Exhibit 2 Column 2 + Column 3 Line 10					
(45)	Exhibit 3 Administrative Expenses for Health Insurance	Exhibit 3 Column 2 Line 7					
(46)	Less Administrative Expenses for Administrative Service Contracts (ASC)	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2					
(47)	Less Administrative Expenses for Administrative Services Only (ASO) Business	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2					
(48)	Less Administrative Expenses for Commissions and Premium Taxes	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2					
(49)	Net Administrative Expenses	Lines (44) + (45) - (46) - (47) - (48)					
(50)	Composite Health Administrative Expense Risk Factor	(7% of Line (42) up to $25 million + 4% of any in excess of $25 million)/Line (42)					
(51)	Administrative Expense Component for Health	Line (49) x factor Line (43) x factor Line (50)					
	Health ASO/ASC						
(52)	Administrative Expenses for ASC Business	Company Records§		X	0.0200	=	
(53)	Administrative Expenses for ASO Business	Company Records§		X	0.0200	=	
(54)	ASC Claims Reported as Incurred Claims	Company Records		X	0.0100	=	
(55)	Other Medical Costs Paid through ASC Arrangements	Company Records		X	0.0100	=	
(56)	Fee-for-Service Received from Health Entities	Company Records		X	0.0100	=	
(57)	Business Risk (C-4b)	Column (2) Lines (51) + (52) + (53) + (54) + (55) + (56)					

§ Line (52) should be greater than or equal to Line (46). Line (53) should be greater than or equal to Line (47).

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CALCULATION OF TOTAL ADJUSTED CAPITAL
(Including Total Adjusted Capital Tax Sensitivity Test)

		Annual Statement Source	(1) Statement Value		Factor		(2) Adjusted Capital
	Company Amounts						
(1)	Capital and Surplus	Page 3 Column 1 Line 38		X	1.000	=	
(2)	Asset Valuation Reserve	Page 3 Column 1 Line 24.01 §		X	1.000	=	
(3)	Dividends Apportioned for Payment	Page 3 Column 1 Line 6.1, in part		X	0.500	=	
(4)	Dividends Not Yet Apportioned	Page 3 Column 1 Line 6.2, in part		X	0.500	=	
(5)	Hedging Fair Value Adjustment	Company Records		X	-1.000	=	
	Life Subsidiary Company Amounts†						
(6)	Asset Valuation Reserve	Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ §		X	1.000	=	
(7)	Dividend Liability	Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡		X	0.500	=	
(8)	Carrying Value of Non-Admitted Insurance Affiliates	Included in LR044 Columns (5) and (7)		X	**1.000**	=	
	Property and Casualty and Other Non-U.S. Affiliated Amounts						
(9)	Non-Tabular discount and/or Alien Insurance Subsidiaries: Other	Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 7 8 Line 0599999 and Line 1499999, in part		X	1.000	=	
(10)	Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (8) less Line (9)					
	Credit for Capital Notes						
(11.1)	Surplus Notes	Page 3 Column 1 Line 32					
(11.2)	Limitation on Capital Notes	0.5 x [Line (10) - Line (11.1)] - Line (11.1), but not less than 0					
(11.3)	Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)					
(11.4)	Credit for Capital Notes	Lesser of Column (1) Line (11.2) or Line (11.3)					
(12)	XXX/AXXX Reinsurance RBC Shortfall	LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)					
(13)	Total Adjusted Capital	Line (10) + Line (11.4) - Line (12)					
	Tax Sensitivity Test						
	Company Amounts						
(14)	Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2		X	-1.000	=	
(15)	Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2		X	1.000	=	
	Subsidiary Amounts						
(16)	Deferred Tax Asset (DTA) Value	Company Records		X	-1.000	=	
(17)	Deferred Tax Liability (DTL) Value	Company Records		X	1.000	=	
(18)	Tax Sensitivity Test: Total Adjusted Capital	Line (13)+(14)+(15)+(16)+(17)					
	Ex DTA ACL RBC Ratio Sensitivity Test						
(19)	Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2		X	1.000	=	
(20)	Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (13) less Line (19)					
(21)	Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)		X	1.000	=	
(22)	Ex DTA ACL RBC Ratio	Line (20) / Line (21)					0.000%

† Including subsidiaries owned by holding companies.
‡ Multiply statement value by percent of ownership.
§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

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LR033

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ADDITIONAL INFORMATION REQUIRED

		Source	(1) Statement Value
(1.2)	Other Affiliates: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR042 Summary for Affiliated Investments Column (1) Lines (19), (20) and (21); Property and Casualty Risk-Based Capital PR005 Summary For Subsidiary, Controlled and Affiliated Investments for Cross-Checking Statement Values Column (1) Line (8) and Line (17)	
(2.2)	Noncontrolled Assets: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR017 Off-Balance Sheet and Other Items Column (1) Line (15); Property and Casualty PR014 Miscellaneous Off-Balance Sheet Items Column (1) Line (15)	
(3.2)	Guarantees for Affiliates: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A3c1; Property and Casualty Notes to Financial Statements #14A3c1	
(4.2)	Contingent Liabilities: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A1; Property and Casualty Notes to Financial Statements #14A1	
(5.2)	Long Term Leases: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #15A2a1; Property and Casualty Notes to Financial Statements #15A2a1	
(7.11)	Total Affiliated Investments: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 50	
(7.12)	Less Affiliated Common Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 46	
(7.13)	Less Affiliated Preferred Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 45	
(7.14)	Net Affiliated Investments: Company	Lines (7.11) - (7.12) - (7.13)	
(7.2)	Affiliated Investments: Subsidiaries	Subsidiaries' Life Annual Statement Five-Year Historical Data Column 1 Line 50 Less Lines 45 and 46; Property and Casualty Annual Statement Five-Year Historical Data Column 1 Line 48 Less Lines 43 and 44	
(9.1)	Surplus Notes: Company	Company's Annual Statement Page 3 Column 1 Line 32	
(9.2)	Surplus Notes: Subsidiaries	Subsidiaries' Life Annual Statement Page 3 Column 1 Line 32; Property and Casualty Annual Statement Page 3 Column 1 Line 33	
(10.11)	Capital Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 50.1	
(10.12)	Surplus Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 51.1	
(10.13)	Total Current Year's Capital Contributions: Company	Line (10.11) + Line (10.12)	
(10.2)	Current Year's Capital Contributions: Subsidiaries	Subsidiaries' Life Annual Statement Page 4 Column 1 Lines 50.1 + 51.1; Property and Casualty Annual Statement Page 4 Column 1 Lines 32.1 + 33.1	
(11.1)	Total Residual Tranches or Interests	Company's Annual Statement Asset Valuation Reserve, Equity and Other Invested Asset Component, Column 1, Line 92 ~~93~~	

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LR038

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CROSSCHECKING FOR AFFILIATED/SUBSIDIARY STOCKS

Affiliated Preferred Stock

	Schedule D Part 6 Section 1 Type	Annual Statement Line Number	(1) Annual Statement Total Preferred Stock†	(2) Total from Life and Fraternal Risk-Based Capital Report‡	(3) Difference
(1)	Parent	0199999			
(2)	U.S. Property and Casualty Insurer	0299999			
(3)	U.S. Life Insurer	0399999			
(4)	U.S. Health Entity	0499999			
(5)	Alien Insurer	0599999			
(6)	Non-Insurer Which Controls Insurer	0699999			
(7)	Investment Subsidiary	0799999			
(8)	Other Affiliates	0899999			
(9)	Total (Sum of Lines (1) through (8))				

Affiliated Common Stock

	Schedule D Part 6 Section 1 Type	Annual Statement Line Number	(1) Annual Statement Total Common Stock†	(2) Total from Life and Fraternal Risk-Based Capital Report§	(3) Difference
(10)	Parent	1099999			
(11)	U.S. Property and Casualty Insurer	1199999			
(12)	U.S. Life Insurer	1299999			
(13)	U.S. Health Entity	1399999			
(14)	Alien Insurer	1499999			
(15)	Non-Insurer Which Controls Insurer	1599999			
(16)	Investment Subsidiary	1699999			
(17)	Other Affiliates	1799999			
(18)	Total (Sum of Lines (10) through (17))				

† Column (1) Lines (1) through (8) and (10) through (17) come from Schedule D Part 6 Section 1 Column 6 ~~7~~ of the annual statement.
‡ Column (2) Lines (1) through (8) come from LR044 Details for Affiliated Investments Column (7).
§ Column (2) Lines (10) through (17) come from LR044 Details for Affiliated Investments Column (5).

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LR043

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February 14, 2025

Philip Barlow
Chair, NAIC Life Risk-Based Capital (RBC) (E) Working Group (LRBC)

Re: LRBC October 2024 Exposures

Dear Chair Barlow:

Pacific Life Insurance Company (PacLife) appreciates the opportunity to provide comments on the RBC Proposal Form (2024-24-L) which was exposed after the Working Group's meeting in October 2024. PacLife has also reviewed the ACLI comment letter dated February 5, 2025, and our comments below are in addition to those. Our comments are focused solely on the LR009 Blanks and Instructions forms and are separated between these two below.

LR009 (Schedule BA Mortgages) Blanks

1. Changes to schedule LR009 were introduced in the 2024 RBC instructions to include an explicit line and charge for Schedule BA Mortgages **in good standing** for "(2) Affiliated Mortgages – Residential – All Other" with a charge of 0.0068 to align with charges on residential mortgage loans held directly. However, corresponding lines in the "90 Days Overdue, Not In Process of Foreclosure" and "In Process of Foreclosure" sections of the Blanks forms were not added. The impact of which leaves the 90 Days Overdue, Not In Process of Foreclosure for "Affiliated Mortgages – Residential – All Other" with a charge of 0.1100 and In Process of Foreclosure for "Affiliated Mortgages – Residential – All Other" with a charge of 0.1300. As can be seen in Chart 1 below, these categories do not match the RBC charge between LR004 and LR009. Should additional lines be added for:

a. 90 Days Overdue, Not In Process of Foreclosure "Affiliated Mortgages – Residential – All Other" with a proposed charge of 0.0140?
b. In Process of Foreclosure "Affiliated Mortgages – Residential – All Other" with a proposed charge of 0.0270?
c. Of note, there are AVR lines for these two additional categories and adding these lines on the Blanks forms requires only edits to the LR009 Blanks form and not additions to the AVR.

CHART 1 - Current RBC Charges Prior to any Proposed Changes

	LR004 Schedule B	LR009 Schedule BA Affiliated	LR009 Schedule BA Unaffiliated
In Good Standing			
Residential Mortgages-Insured or Guaranteed	0.0014	0.0014	0.0090*
Residential Mortgages-All Other	0.0068	0.0068	0.0175 / 0.0300**
Commercial Mortgages-Insured or Guaranteed	0.0014	0.0014	0.0090*
Unaffiliated - Defeased with Government Securities	N/A	N/A	0.0090
Unaffiliated - Primarily Senior	N/A	N/A	0.0175
Unaffiliated - All Other	N/A	N/A	0.0300
Commercial Mortgages – Category CM1	0.0090	0.0090	0.0090
Commercial Mortgages – Category CM2	0.0175	0.0175	0.0175
Commercial Mortgages – Category CM3	0.0300	0.0300	0.0300
Commercial Mortgages – Category CM4	0.0500	0.0500	0.0500
Commercial Mortgages – Category CM5	0.0750	0.0750	0.0750
Farm Mortgages – Category CM1	0.0090	0.0090	0.0090
Farm Mortgages – Category CM2	0.0175	0.0175	0.0175
Farm Mortgages – Category CM3	0.0300	0.0300	0.0300
Farm Mortgages – Category CM4	0.0500	0.0500	0.0500
Farm Mortgages – Category CM5	0.0750	0.0750	0.0750
90 Days Overdue			
Farm Mortgages – Category CM6	0.1100	0.1100	0.1100
Residential Mortgages-Insured or Guaranteed	0.0027	0.0027	0.1100***
Residential Mortgages-All Other	0.0140	0.1100	0.1100***
Commercial Mortgages-Insured or Guaranteed	0.0027	0.0027	0.1100***
Commercial Mortgages-All Other – Category CM6	0.1100	0.1100	0.1100
In Process of Foreclosure			
Farm Mortgages – Category CM7	0.1300	0.1300	0.1300
Residential Mortgages-Insured or Guaranteed	0.0054	0.0054	0.1300****
Residential Mortgages-All Other	0.0270	0.1300	0.1300****
Commercial Mortgages-Insured or Guaranteed	0.0054	0.0054	0.1300****
Commercial Mortgages-All Other – Category CM7	0.1300	0.1300	0.1300

*No specific category, closest entry on LR009 is the Unaffiliated - Defeased with Government Securities
**No specific category, closest entry on LR009 is the Unaffiliated - Primarily Senior or Unaffiliated - All Other
***A group category for All Other 90 Days Overdue - Unaffiliated is assumed for these categories
****A group category for All Other In Process of Foreclosure - Unaffiliated is assumed for these categories

Yellow highlights indicate those lines that have RBC charges that are not consistent between LR004 & LR009

2. In response to ACLI's question if the Blanks form should have a line added for "Unaffiliated Mortgages – Residential – All Other with a proposed charge of 0.0068", PacLife would like to comment additionally that:
   a. There is also not a category for "Unaffiliated Mortgages - Commercial and Residential Insured or Guaranteed" and that if we are adding Unaffiliated categories, should we also include this category with a proposed charge of 0.0014 (matches the current Affiliated charge – See chart 1 above)?
   b. Similar to what is described in #1 above, if we are adding these additional categories for Unaffiliated Mortgages, should we also add lines for each of "Unaffiliated Mortgages – Residential – All Other" and "Unaffiliated Mortgages - Commercial and Residential Insured or Guaranteed" in all of the appropriate sections for: (i) In Good Standing; (ii) 90 Days Overdue, Not In

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Newport Beach, CA 92660

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Process of Foreclosure; and (iii) In Process of Foreclosure? If so, the proposed charges would be the matching charge in the LR004 and LR009 affiliated columns in Chart 1 above.

c. There currently are not AVR lines for either "Unaffiliated Mortgages – Residential – All Other" or "Unaffiliated Mortgages - Commercial and Residential Insured or Guaranteed" and adding these categories to the LR009 Blanks would also require edits to the AVR forms for all of the sections of (i) In Good Standing; (ii) 90 Days Overdue, Not In Process of Foreclosure; and (iii) In Process of Foreclosure.

3. PacLife agrees with the ACLI that the Farm Mortgage AVR line references need to be added into the LR009 Blanks form.
4. Attached to the end of this document are proposed edits to the LR009 Blanks form that addresses numbers 1 and 3 above. Number 2 above is not addressed in these changes because corresponding AVR lines are not yet available. The document has red text where edits are proposed.

LR009 (Schedule BA Mortgages) Instructions

The below comments are reflective of the 4 comments above. In addition, there are references to items not included in the detail presented within the documentation for 2024-24-L, which included a truncated set of LR009 Instructions (including items 9 through 11 below)

5. In the 2nd paragraph of the Basis of Factors instructions subitem (1), that begins "For investments that contain covenants", the line reference in the last sentence of that subitem should be a reference to Line (3).
6. In the Column (1) section of the Specific Instructions for the Application of the Formula, the initial enumerated list should include Line (2) so that it reads: "Except for Lines (1), (2), (13), and (17)…". Also, in this same section, the Line reference in the last sentence should be to "Line (23)" if the changes noted in item 1 above are made (see updated LR009 Blanks form referenced in #4 above as a reference).
7. In the Column (5) section of the Specific Instructions for the Application of the Formula and throughout the rest of the document, the Line references should be updated based on the final version of the LR009 Blanks form adopted.
8. In the Column (6) section of the Specific Instructions for the Application of the Formula, the second paragraph should begin "For Line (3), *summary amounts are entered for* Column (6) based…". The italicized words appear to have been inadvertently deleted. This language was present as recently as agenda item 2023-07-L that was approved on 4/28/2023.
9. In the Figure (9) section of the Specific Instructions for the Application of the Formula, the penultimate sentence should be deleted as it does not reflect the existing state of the LR009 Blanks form or the proposals above. Also, in the table that follows, the following changes should be made:

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a. Several of the names do not match the LR009 Blanks form. PacLife suggests these should be consistent.
b. For Lines 7 through 11, these rows also likely should reference Line (3), which is the line for the Unaffiliated Mortgages With Covenants that use these same RBC factors.

10. In Note 1 section of the Specific Instructions for the Application of the Formula, there is a reference to "v. 5.1", which reference was removed as part of the approved language to Agenda Item 2023-07-L, which was approved on 4/28/2023. A similar change was also approved to remove the same reference to the Instructions for form LR004 at the same time.
11. If the changes referenced in #2 above are made, additional changes to the LR009 Instructions will be necessary.

Thank you once again for the opportunity to review these RBC Proposal Forms and we look forward to continued discussions at a future LRBC meeting.

Sincerely,



Pacific Life Insurance Company

cc: Kazeem Okosun, NAIC; Shannon Jones, ACLI

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700 Newport Center Drive
Newport Beach, CA 92660

PROPOSED EDITS TO LR009 BLANKS FORM (EDITS IN RED TEXT)



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Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 02/21/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	Paul Navratil	Agenda Item # 2025-01-L Year 2025
TELEPHONE:		**DISPOSITION**
EMAIL ADDRESS:	PNavratil64@massmutual.com	**ADOPTED:** ☐ TASK FORCE (TF) _____ ☐ WORKING GROUP (WG) _____ ☐ SUBGROUP (SG) _____
ON BEHALF OF:	Life Risk-Based Capital (E) Working Group	**EXPOSED:** ☐ TASK FORCE (TF) _____ ☐ WORKING GROUP (WG) _____ ☐ SUBGROUP (SG) _____
NAME:	Philip Barlow, Chair	**REJECTED:** ☐ TF ☐ WG ☐ SG _____
TITLE:	Associate Commissioner of Insurance	**OTHER:** ☐ DEFERRED TO _____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) _____
AFFILIATION:	District of Columbia	
ADDRESS:	1050 First Street, NE Suite 801 Washington, DC 20002	

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions

☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Proposal 2023-15BWG MOD was adopted by the NAIC Blanks (E) Working Group in 2024. It added a new general interrogatory to provide needed information for completing LR025 (Life Insurance page).

This proposal is to update the RBC instructions and blanks to allow for direct pulls of information between the annual statement including the newly adopted general interrogatory as per 2023-15BWG MOD and the RBC Blank.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

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Company Name | Confidential when Completed | NAIC Company Code

LIFE INSURANCE

		Annual Statement Source	(1) Statement Value		Factor		(2) RBC Requirement
	Individual & Industrial Life Net Amount at Risk						
(1)	Total Individual & Industrial Life Net Amount at Risk	~~Company Records~~ (Exhibit of Life Insurance Sum of Columns 2 and 4, Line 23 x 1000) - |(Exhibit 5 Sum of Columns 3 and 4, Line 0199999) +(Separate Accounts Exhibit 3 Column 3 Line 0199999) + (General Interrogatories Part 2, Column 1, Line 10.01) - (General Interrogatories Part 2, Column 1, Line 10.02)|					
(2)	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	~~Company Records~~ General Interrogatories Part 2, Column 1, Line 10.08		X	†	=	
(3)	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	~~Company Records~~ General Interrogatories Part 2, Column 1, Line 10.14		X	†	=	
(4)	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (1) - (2) - (3)		X	†	=	
(5)	Total Individual & Industrial Life	Lines (2) + (3) + (4)					
	Group & Credit Life						
(6)	Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk	~~Company Records~~ (Exhibit of Life Insurance Sum of Columns 6 and 9, Line 23 x 1000) - (Exhibit of Life Insurance Sum of Columns 2 and 4, Line 43 and 44 x 1000) - |(Exhibit 5 Sum of Columns 5 and 6, Line 0199999) + Separate Accounts Exhibit 3 Column 4 Line 0199999) + (General Interrogatories Part 2, Column 1, Line 10.15) - (General Interrogatories Part 2, Column 1, Line 10.16)|					
(7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk	~~Company Records~~ General Interrogatories Part 2, Column 1, Line 10.22		X	†	=	
(8)	Group & Credit Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk	~~Company Records~~ General Interrogatories Part 2, Column 1, Line 10.28		X	†	=	
(9)	Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	~~Company Records~~ General Interrogatories Part 2, Column 1, Line 10.34		X	†	=	
(10)	Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (6) - (7) - (8) - (9)		X	†	=	
(11)	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4, Line 43 and 44 x 1000		X	0.0004	=	
(12)	Total Group & Credit Life	Lines (7) + (8) + (9) + (10) + (11)					
(13)	Total Life	Lines (5) + (12)					

† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.

Denotes items that must be manually entered on the filing software.

LR025

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LIFE INSURANCE
LR025

Basis of Factors

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95th percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released in excess of the mortality cost expected under the moderately adverse scenario. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95th percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

Specific Instructions for Application of the Formula

Lines 6-11 are not applicable to Fraternal Benefit Societies.

The NAR in total and for each of the factor categories **is derived using annual statement sources including appropriate General Interrogatories starting yearend 2025** and are net of reinsurance throughout.

The NAR size bands apply to the total amounts for individual & industrial life and group & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories. Size band 1 is for NAR amounts up to $500 million. Size band 2 is for NAR amounts greater than $500 million and up to $25 billion. Size band 3 is for NAR amounts greater than $25 billion.

Pricing Flexibility for Individual & Industrial Life Insurance and Group & Credit Life Permanent Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization of ceded amounts for direct insurers should be based on the



Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 2/13/2025	**FOR NAIC USE ONLY**
CONTACT PERSON: Colin Masterson	Agenda Item # 2025-05-L Year 2025
TELEPHONE: 202-624-2463	**DISPOSITION**
EMAIL ADDRESS: ColinMasterson@acli.com	**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF: American Council of Life Insurers	**EXPOSED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
NAME: Colin Masterson	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
TITLE: SR. Policy Analyst	**OTHER:** ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
AFFILIATION: American Council of Life Insurers	
ADDRESS:	

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a result of the NAIC Principles-Based Bond Project, some assets are moving from Schedule D to Schedule BA. Though there are other implications, ACLI members have identified what seems to be an ambiguous Schedule BA fixed income asset concentration charge. Asset concentration (LR010) generally intends to double the risk-based capital pretax factor of the ten largest asset exposures, excluding lower risk categories. There is a maximum overall (basic formula plus asset concentration) pretax factor of 45%.

An Overview of RBC treatment of fixed income assets can be found below:

RBC Treatment of Fixed Income Assets		
Annual Statement	Schedule D	Schedule BA
C-1 RBC Section	LR002	LR008
C-1 Structure	20-classes	6-classes
C-1 Reflects Bond Size Factor Adjustment	Yes	No
Asset Concentration Structure	20-classes	Ambiguous

However, we have noticed that LR010 excludes specific blanks for Schedule BA fixed income assets. Under current instructions, potential options for Schedule BA fixed income assets on LR010 include a 20-class Bond Section or Other Schedule BA Assets.

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For example, please find below an illustration of a rated 2.A fixed-income asset moving from Schedule D to Schedule BA:

Asset Concentration Treatment	(a) Basic Formula Sch. BA (6-class)	(b) Asset Concentration LR010	(c = a + b) Overall C-1	(c / a) Overall C-1 / Basic Formula
20-class Bond Section	1.26%	1.261%	2.521%	200%
Other Schedule BA Assets	1.26%	15%	16.26%	1290%

As potential remediations to address these ambiguities, ACLI is proposing changes to LR010 instructions as illustrated.

Additional Staff Comments:

Staff Note: With effect from 2025 Annual Statement filings, the following schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to AVR Equity line 22 through 28, thereby being afforded a base charge of C-1 **Bond factors** (NAIC 1-6) on RBC LR008, which is ultimately categorized as **C-1o** risk component.
However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

ACLI proposal seeks to clarify LR010 instruction such that these "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002, i.e., **C-1o** risk component (Option 1). Option 1 will put the investments' RBC treatment almost the same pre and post – Principle-Based Bond Definition adoption.

Alternatively, these investments will be assessed an asset concentration factor of 15% for Other Schedule BA Assets, which will ultimately be categorized as **C-1o** risk component as well. (Option 2). Option 2 will be a hybrid approach wherein the base factor are NAIC-designation-driven whereas asset concentration factor is flat at 15%.

Schedule BA	Description
Line 0199999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0299999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0999999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

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Note that similar investments that are NOT designated by the SVO are afforded 30% base charge and treated as Other schedule BA Assets (15%) for asset concentration factor purposes and thus is outside of the scope of this proposal.

NAIC Staff look to the Working Group to determine how to clarify the LR010 Asset Concentration Factor instruction and/or blanks to capture these specific asset types. To ensure accurate determination among Option 1, Option 2 or any other options, NAIC staff recommend that the LRBCWG refer the proposal to SAPWG for review with a request for comments.

**** This section must be completed on all forms.** **Revised 2-2023**

ASSET CONCENTRATION FACTOR
LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids,**~~ CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash and short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds, **including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table,** and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA **joint ventures**, partnerships, **limited liability and other fund structures** should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds~~**, or**~~ NAIC 1 unaffiliated preferred stock, ~~**or NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

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The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. **Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the '*Other Invested Assets with Underlying Characteristics of Bonds*' AVR category, use the NAIC Designation and NAIC Designation Modifier from the '*NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol*' column as reported on Schedule BA – Part 1.**The RBC filing software automatically allows for an overall 45% RBC cap.



Attachment Three-B
Capital Adequacy (E) Task Force
3/25/25

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

FROM: Mike Yanacheak, Chair, Generator of Economic Scenarios (GOES) (E/A) Subgroup
Peter Weber, Vice Chair, GOES (E/A) Subgroup

RE: GOES Amendments to Life RBC Blanks and Instructions

DATE: February 26, 2025

The GOES (E/A) Subgroup has been working to implement a new economic scenario generator for use in statutory reserve and capital calculations for life insurance and annuities. It is planned that the new economic scenario generator will be effective for C3 Phase I and C3 Phase II for year-end 2026. To facilitate the implementation of the new economic scenario generator, the GOES (E/A) Subgroup requests that the Life Risk-Based Capital (E) Working Group:

1. Implement the necessary changes to the Life Risk-Based Capital Blanks and Instructions,
2. Coordinate with the Variable Annuities Capital and Reserve (E/A) Subgroup on recommended changes to the C3 Phase II calculation,
3. Consider changes to the required number of scenarios for the C3 Phase I calculation, if necessary, and,
4. Consider changes to the capital metric for the C3 Phase I calculation, if necessary.

The Subgroup appreciates the Working Group's assistance on this issue and looks forward to the response.

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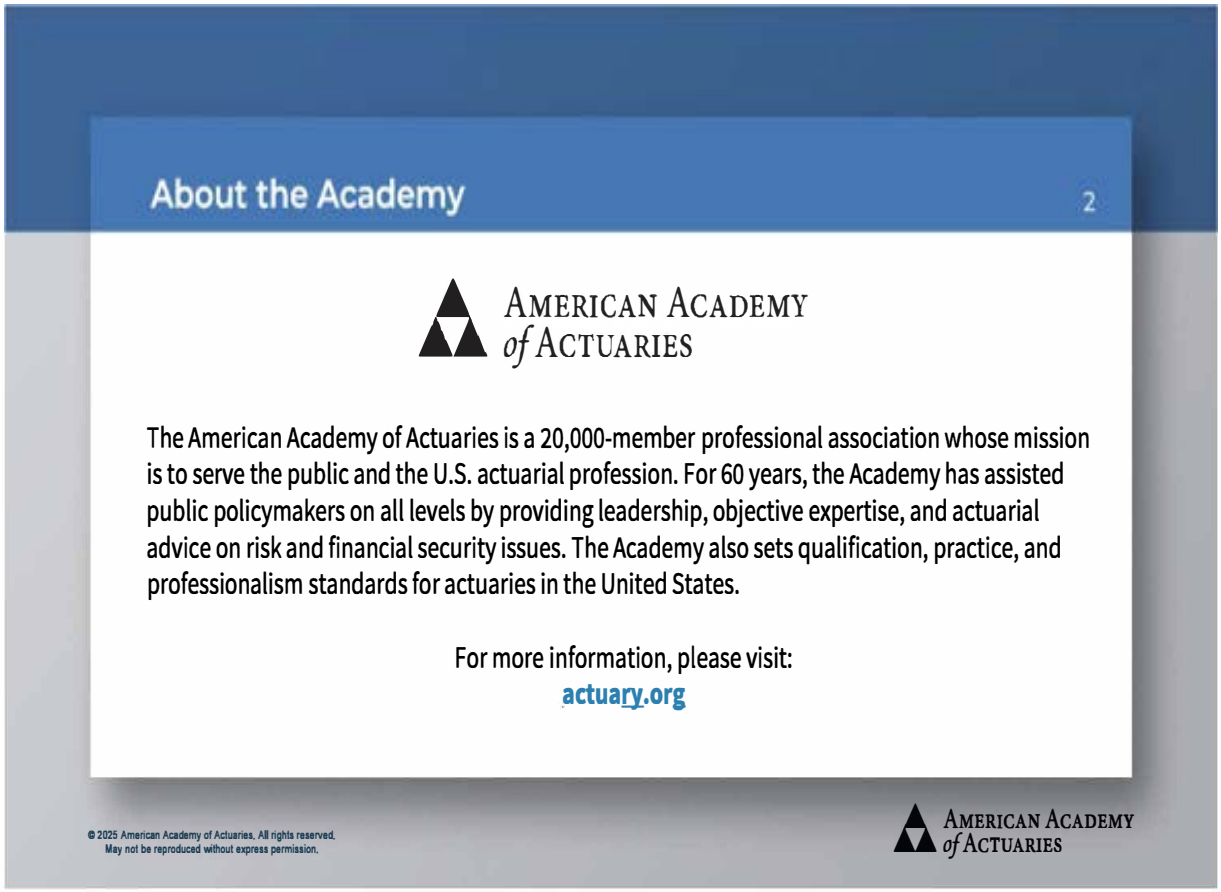
C-3 Alignment

Life Risk-Based Capital (E) Working Group

March 24, 2025

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American Academy of Actuaries


About the Academy
2
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AMERICAN ACADEMY of ACTUARIES

Background

3

- C-3 Phase 1 applies to Single Premium Life and Non-Variable Annuities (excluding Fixed Index Annuities – FIA) and has not been updated in decades.
- C-3 Phase 2, which applies to Variable Annuities including Registered Index Linked Annuities, was recently updated and tested.
- Our purpose is to propose how to harmonize C-3 Phase 1 and C-3 Phase 2 methodology.

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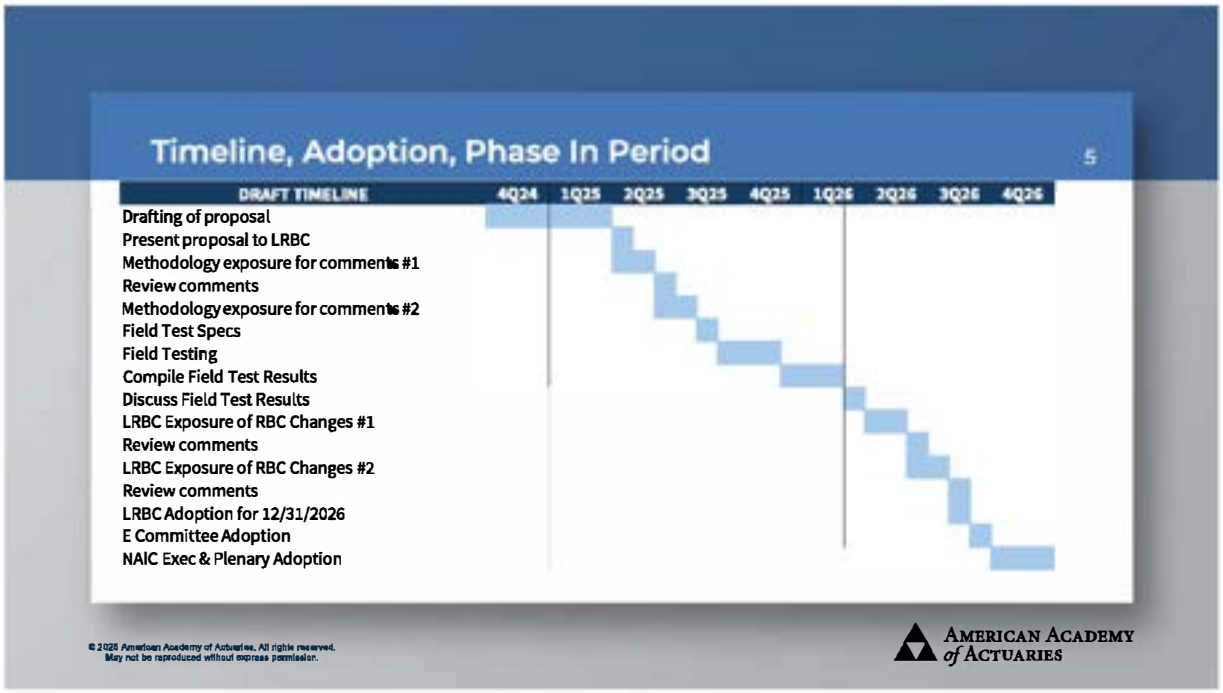
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Approach to C-3 Alignment

- C-3 Phase 2 methodology was reviewed by the NAIC over the past 8 years.
- Where possible, C-3 Phase 1 will adopt changes to align with C-3 Phase 2.
- Given the scale of changes, we propose a phased approach with some changes being reflected by year-end 2026.
    - This would include the adoption of the new Generator of Economic Scenarios (GOES) which will also the prescribed generator for C-3 Phase 2 and PBR.
- Other changes may be deferred due to feasibility, magnitude of impact, and to avoid unintended consequences.

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Timeline, Adoption, Phase In Period
5
DRAFT TIMELINE
4Q24
1Q25
2Q25
3Q25
4Q25
1Q26
2Q26
3Q26
4Q26
Drafting of proposal
Present proposal to LRBC
Methodology exposure for comments #1
Review comments
Methodology exposure for comments #2
Field Test Specs
Field Testing
Compile Field Test Results
Discuss Field Test Results
LRBC Exposure of RBC Changes #1
Review comments
LRBC Exposure of RBC Changes #2
Review comments
LRBC Adoption for 12/31/2026
E Committee Adoption
NAIC Exec & Plenary Adoption
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Timeline, Adoption, Phase In Period

6

- We anticipate a field test during 2025 and adoption effective year-end 2026.
- We propose a three-year phase-in period for changes that are effective at year-end 2026.
- We propose that other C-3 changes are phased in during future years and will be outlined in the rest of the presentation

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Scenarios

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Economic Scenarios

8

- C-3 Phase 1 scenarios have a high Median Reversion Point (MRP) and do not include equity returns.
- C-3 Phase 2 scenarios have a formulaic MRP weighted toward recent rates and include equity returns.
- Propose using the new GOES that is expected to be adopted for an effective date of 2026.

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Product Scope

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Product Scope

10

The ultimate goal is a C-3 framework with consistent scenarios, metrics, and legal entity level aggregation for all products. We propose reviewing other products at a future date.

		Smallest step Option1	**Recommended** Option 2[1]	Option 3	*Closest to Ultimate Goal* Option 4
C3P1	Single Premium Life	Old C3P1	**New C3P1**	Old C3P1	**New C3P1**
	Single/Flexible Premium Annuity	**New C3P1**	**New C3P1**	Old C3P1 **PBR Annuity to New C3P1**	**New C3P1**
C3P2	VA RILA	C3P2	C3P2	C3P2	C3P2
Currently out of scope	FIA	**New C3P1**	**New C3P1**	**New C3P1**	**New C3P1**
	LTC	defer	defer	defer	**New C3P1**
	ULSG	defer	defer	defer	**New C3P1**
	Remaining Life & Health products	defer	defer	defer	defer
	Pro	small manageable step	maintains existing aggregation	aligns reserving and capital models to PBR only business	closest to ultimate goal
	Con	lose aggregation between life & annuity - which would ultimately be added back later	larger step, could be harder to execute quickly	inconsistent capital between in force and new business	most difficult to implement in one step

1: This option aligns with the timeline presented on slide 5

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Discounting

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Discounting

12

- **Background**
  - Phase 1 uses one-year Treasury rate discounting. Inforce assets and reinvestment assets are typically longer in duration than one year and lower in credit quality than Treasuries, both of which tend to increase yields.
  - Phase 2 allows discounting at the Net Asset Earned Rate (NAER), which likely produces better estimates of the amount of additional assets needed to eliminate a deficiency than does phase 1 discounting.
  - Phase 2 also allows Direct Iteration which solves for the amount of additional assets needed to eliminate a deficiency, whereas Phase 1 does not.
- **Proposal**
  - Use Phase 2 discounting rules which allow the use of NAER for discounting or Direct Iteration.
- **Rationale**
  - Better estimate of the amount of additional assets needed to eliminate a deficiency.
  - More principle-based.

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Assumptions and Models

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Current Assumptions and Models

14

- C-3 Phase 1: Cash Flow Testing (CFT)-based assumptions that are considered "moderately adverse."
- C-3 Phase 2: Principles Based Reserve (PBR) prudent estimate assumptions.

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Short-Term Solution Starting Year-End 2026 (Recommended)

15

- **Proposal: bifurcated solution**
  - Use PBR models and assumptions for business subject to PBR (VM-20, VM-21, VM-22).
  - Use CFT models and assumptions for non-PBR business.
  - Potentially allow flexibility between the two approaches for business subject to PBR due to operational complexity.
  - Add other products if/when underlying reserve moves to PBR.
- **Pros**
  - Efficiency of using same underlying model for reserves and capital.
  - Similar to C3P2 for Variable Annuities.
- **Cons**
  - Need to maintain two sets of models/assumptions.

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Default Costs

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C-3 Default Costs

17

Current		
	Non-PBR	PBR
Reserves	Moderately adverse (approach varies)	CTE70
Reserves (assumed in C-1 RBC)	Mean + ½ standard deviation	Mean + ½ standard deviation
C-3 Phase 1	Expected Defaults	Expected Defaults
C-3 Phase 2	CTE70	CTE70

Recommended		
	Non-PBR	PBR
Reserves	Moderately adverse (approach varies)	CTE70
Reserves (assumed in C-1 RBC)	Mean + ½ standard deviation	Mean + ½ standard deviation
C-3 Phase 1	CTE70	CTE70
C-3 Phase 2	CTE70	CTE70

- Recommend updating default cost assumptions in C-3 Phase 1 to more conservative CTE70 level.
- CTE70 is a generally accepted standard for moderately adverse default costs and consistent with PBR and C-3 Phase 2.
- Because of difference with default assumption in C-1 capital, results in potential additional margin on C-1 risk capital.

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C-1 Risk Capital Credit

18

- Generally, adjustments are not made in the RBC framework for potential deficiencies or excess in other components.
- If an adjustment is included, a possible recommendation is a factor-based credit applied to the assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit
Bonds – investment grade bonds	20%
Bonds – below investment grade	15%
Commercial mortgages	Double bond credit

- Recommend further study to explore an *optional* credit that would address the double counting.

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Stochastic Equity Risk

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Stochastic Equity

- **Background & Considerations**
  - Similar to default costs, double counting of RBC related to general account (GA) equity (or equity-like) assets is being reviewed
  - Additionally, equity risk reflected in the current C-1 charge (based on 2013 historical experience measured over a 2-year exposure period) differs from the C-3 stochastic equity element captured over a set of real-world scenarios
  - Considerations for companies with a material equity exposure in the GA are being discussed. Topics include:
    - Definition of the materiality threshold, e.g., 5% of GA for liquid liabilities or 15% for illiquid liabilities
    - Excluding equity-like assets in C-3 calculations from C-1 charge
    - Maintain C-1 charge, but allow for deficiency smoothing to address equity volatility, akin to SSAP 108 hedge accounting practices

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Aggregation of C3P1 and C3P2

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Aggregation

- **Background**
  - C-3 Phase 1 and C-3 Phase 2 are calculated separately with no aggregation.
- **Ideal Proposal**
  - No differences between C-3 Phase 1 and C-3 Phase 2 methodology and aggregation fully reflected.
- **Current Proposal**
  - Aggregation is permitted but not required (under certain conditions). Pros and cons reference this proposal.
- **Pros**
  - Reflects diversification between products, consistent with how a company manages interest rate risk.
- **Cons**
  - Requires consistency between C-3 Phase 1 and C-3 Phase 2 methodologies (dependent on outcome of other C3 – Alignment proposals)
  - Operationally complex; requires methodology for splitting VA market risk from aggregated interest rate risks.

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Aggregation - Continued

- **Parameters for Permitted Aggregation in 2026**
  - This will need to be revisited based on proposals for other topics, such as models, assumptions, and number of scenarios.
  - If there is not full consistency between C-3 Phase 1 and C-3 Phase 2, is there still some level of aggregation that can be used?
  - For example, if Company does not have alignment on interim reserves for CFT vs. PBR assumptions, can Company still reflect aggregation across scenarios if both C-3 Phase 1 and C-3 Phase 2 use the same 1000 scenarios?

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Factor Based C-3 Floor

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C-3 Floor Amount - Background

- The C-3 factors are meant to provide for a "lack of synchronization of asset and liability flows."
  - Factors are from the 1991 study report. The "Low-Risk" category assumes a well-matched portfolio ($1/8^{th}$ of a year difference). The other risk category factors were developed by stochastic modeling of asset and liability cashflows.
- For companies that utilize the C-3 cash flow approach, there is a floor equal to ½ the standard factors.
- Assets, liabilities, and investment strategies are likely much different today than 1991, for many companies:
  - Assets – ABS, floating rate assets, equities
  - Liabilities – Embedded options in products
  - Investment Strategies – Using floating rate assets and/or equities to support some fixed rate liabilities

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C-3 Floor Amount - Recommendation

- C-3 Phase 2 does not have a floor
  - PBR applies to almost all VA products and such reserves are reset each quarter, with a floor.
  - C-3 Phase 2 is based on a high CTE level (CTE 98) to encourage tail hedging.
- Significant changes to C-3 Phase 1 are being proposed for year-end 2026
  - GOES scenarios
  - Equity risk
  - FIAs
- Given the timeline, we cannot support the effort to update the C-3 factors and/or review the appropriateness of the floor at this time
- **Proposal**
  - Retain the current factors and floors for year-end 2026.
  - To be reviewed in greater detail after efforts to adopt year-end 2026 recommendations are complete.

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Metric, Scalar, Working Reserves, Time Horizon

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Metric and Scalar

28

- C-3 Phase 1 metric is a **surplus** measure whereas C-3 Phase 2 uses an **asset** measure (working reserves are set to zero).
- Currently contemplating two Greatest Present Value of Accumulated Deficiency (GPVAD) methods:
  - GPVAD (**assets**) with projection horizon to sufficiently represent life of the business.
    - Set working reserves to zero and focus on claim payment capabilities – most aligned with C-3 Phase 2.
  - GPVAD (**surplus**) with shorter projection horizon, reasonable working reserve proxy and focus on reserve funding capabilities.
    - Working reserve proxy may range from Cash Surrender Value to Actuarial Present Value methods.

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Metric and Scalar

29

- Consideration for measurement of the risk is ongoing, but will hinge on the defined metric while using the following formula:
  - **YY% x (CTE XX less Reserves)**
- YY% and CTE XX to be finalized with support of field testing results.
- The projection length, or time horizon, will also be dependent on whether a working reserve is included.

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Next Steps

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Next Steps

31

- Provide recommendation on remaining topics:
  - Metric and Scalar
  - Working Reserves and Interim Measurement
  - Time Horizon
  - Stochastic Equity Risk
- Design field test

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Questions?

32

For more information, please contact

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Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ Investment RBC (E) Working Group
☐ P/C RBC (E) Working Group
☒ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	
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ON BEHALF OF:	Life Risk-Based Capital (E) Working Group
NAME:	Philip Barlow, Chair
TITLE:	Associate Commissioner of Insurance
AFFILIATION:	District of Columbia
ADDRESS:	1050 First Street, NE Suite 801 Washington, DC 20002

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Agenda Item # 2025-04-L
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☐ Property/Casualty RBC Blanks
☐ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☒ Life and Fraternal RBC Blanks
☒ Life and Fraternal RBC Instructions
☒ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal supersedes deferred Proposal 2024-07-L. This proposal seeks to reorganize LR008 – Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o vs. C1-cs) are grouped, so as to facilitate proper MODCO/ Funds Withheld Reinsurance Agreement adjustments within LR008.

Should changes proposed for LR008 be adopted, there would be corresponding changes to LR030 and LR031 instructions and/or blanks. Such changes are also incorporated into this proposal.

Additional Staff Comments:

Staff Note: The areas highlighted in gray within the Blank pages are subject to the adoption of Proposals 2024-21-L MOD and 2024-24-L MOD.

** This section must be completed on all forms. Revised 2 2023

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OTHER LONG-TERM ASSETS
LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (**44** ~~49.1~~)
Schedule BA affiliated common stock – all others should ~~be~~ include~~d in C-1cs. Specifically this means that~~ all subs with an affiliate code 9 ~~13~~ in the current life-based framework and "holding company in excess of indirect subsidiaries" or subsidiaries with affiliate code 3 ~~7~~. ~~are to be included in C-1cs~~.

~~Line (49.2)~~
~~New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2).~~

Line (**51** ~~50~~)
Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Line (58)
Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (**20** ~~21~~) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

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OTHER LONG-TERM ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Fixed Income - Bonds						
(1)	Exempt Obligations	AVR Equity Component Column 1 Line 22				X 0.0000 =	
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line 23				X 0.0039 =	
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line 24				X 0.0126 =	
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line 25				X 0.0446 =	
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line 26				X 0.0970 =	
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line 27				X 0.2231 =	
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line 28				X 0.3000 =	
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)					
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)					
	Schedule BA - Fixed Income - Preferred Stock						
~~(12.1)~~	~~Asset NAIC 1~~	~~AVR Equity Component Column 1 Line 30~~					
~~(12.2)~~	~~Less Rated/Designated NAIC 1 Surplus Notes and Capital Notes~~	~~Column (1) Line (22) + Column (1) Line (32)~~					
(12) ~~(12.3)~~	~~Net~~ Asset NAIC 1	AVR Equity Component Column 1 Line 30 ~~Line (12.1) - (12.2)~~				X 0.0039 =	
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line 31				X 0.0126 =	
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line 32				X 0.0446 =	
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line 33				X 0.0970 =	
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line 34				X 0.2231 =	
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line 35				X 0.3000 =	
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12.3) through (17)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

Denotes items that must be manually entered on the filing software.

LR008

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OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Rated Surplus Notes Classified by Designation Equivalent						
(22)	Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0039 =	
(23)	Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0126 =	
(24)	Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0446 =	
(25)	Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.0970 =	
(26)	Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.2231 =	
(27)	Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X 0.3000 =	
(28)	Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)					
(29)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(30)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(31)	Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)					
	Rated Capital Notes Classified by Designation Equivalent						
(32)	Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0039 =	
(33)	Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0126 =	
(34)	Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0446 =	
(35)	Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.0970 =	
(36)	Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.2231 =	
(37)	Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part				X 0.3000 =	
(38)	Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)					
(39)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(40)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(41)	Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

Denotes items that must be manually entered on the filing software.

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OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock/ equity interests and Affiliated Non-Insurance Stock (C1-cs)						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000 =	
(44)	Schedule BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69				X 0.3000 =	
(45)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 92				X 0.4500 =	
(46) ~~(44)~~	Total Schedule BA Unaffiliated Common Stock/ equity interests and Affiliated Non-Insurance Stock (C1-cs) (pre-MODCO/Funds Withheld)	Line (42) + (43) + (44) + (45)					
(47) ~~(45)~~	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(48) ~~(46)~~	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(49) ~~(47)~~	Total Schedule BA Unaffiliated Common Stock/ equity interests and Affiliated Non-Insurance Stock (C1-cs) (including MODCO/Funds Withheld.)	Lines (46) - (47) + (48) ~~(44) - (45) + (46)~~					
	Schedule BA - All Other (C-1o)						
(50.1) ~~(48.1)~~	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(50.2) ~~(48.2)~~	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(50.3) ~~(48.3)~~	Total Schedule BA Affiliated Common Stock - C-1o	Line (50.1) + (50.2) ~~(48.1) + (48.2)~~				X 0.3000 =	
~~(49.1)~~	~~BA Affiliated Common Stock - All Other~~	~~AVR Equity Component Column 1 Line 69~~					
~~(49.2)~~	~~Total Sch. BA Affiliated Common Stock - C-1cs~~	~~Line (49.1)~~				~~X 0.3000 =~~	
(51) ~~(50)~~	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part				X 0.0680 =	
~~(51)~~	~~Total Residual Tranches or Interests~~	~~AVR Equity Component Column 1 Line 92~~				~~X 0.4500 =~~	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 100				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 101				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1)	Other Schedule BA Assets, including Surplus Notes and Capital Notes	AVR Equity Component Column 1 Line 99 + 102					
(53.2)	Less NAIC ~~1 2~~ thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) ~~(23)~~ through (27) + Column (1) Lines (32) ~~(33)~~ through (37)					
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (50.3) ~~(48.3)~~ + (51) ~~(50)~~ + (52.3) + (53.3)					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49) ~~(47) + (49.2) + (51)~~ + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation

LR008

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Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

LR008

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
	ASSET RISKS							
	Bonds							
(001)	Long-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8)		X	0.1680	=		
(002)	Long-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4)		X	0.1680	=		
(003)	Long-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4)		X	0.1680	=		
(004)	Long-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4)		X	0.1680	=		
(005)	Long-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4)		X	0.1680	=		
(006)	Long-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7)		X	0.2100	=		
(007)	Short-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (10.8)		X	0.1680	=		
(008)	Short-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (11.4)		X	0.1680	=		
(009)	Short-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (12.4)		X	0.1680	=		
(010)	Short-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (13.4)		X	0.1680	=		
(011)	Short-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (14.4)		X	0.1680	=		
(012)	Short-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (15)		X	0.2100	=		
(013)	Credit for Hedging - NAIC 1 Through 5 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0199999)		X	0.1680	=		†
(014)	Credit for Hedging - NAIC 6 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0299999)		X	0.2100	=		†
(015)	Bond Reduction - Reinsurance	LR002 Bonds Column (2) Line (19)		X	0.2100	=		†
(016)	Bond Increase - Reinsurance	LR002 Bonds Column (2) Line (20)		X	0.2100	=		
(017)	Non-Exempt NAIC 1 U.S. Government Agency	LR002 Bonds Column (2) Line (22)		X	0.1680	=		
(018)	Bonds Size Factor	LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21)		X	0.1680	=		
	Mortgages							
	In Good Standing							
(019)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (1)		X	0.1575	=		
(020)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (2)		X	0.1575	=		
(021)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (3)		X	0.1575	=		
(022)	Total Commercial Mortgages - All Other	LR004 Mortgages Column (6) Line (9)		X	0.1575	=		
(023)	Total Farm Mortgages	LR004 Mortgages Column (6) Line (15)		X	0.1575	=		
	90 Days Overdue							
(024)	Farm Mortgages	LR004 Mortgages Column (6) Line (16)		X	0.1575	=		
(025)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (17)		X	0.1575	=		
(026)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (18)		X	0.1575	=		
(027)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (19)		X	0.1575	=		
(028)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (20)		X	0.1575	=		
	In Process of Foreclosure							
(029)	Farm Mortgages	LR004 Mortgages Column (6) Line (21)		X	0.1575	=		

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Denotes items that must be manually entered on the filing software.

LR030

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(030)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X	0.1575	=		
(031)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X	0.1575	=		
(032)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X	0.1575	=		
(033)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X	0.1575	=		
(034)	Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X	0.1575	=		
(035)	Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X	0.1575	=		
(036)	Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X	0.2100	=		†
(037)	Mortgage Increase - Reinsurance	LR004 Mortgages Column (6) Line (30)		X	0.2100	=		
	Preferred Stock							
(038)	Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X	0.1575	=		
(039)	Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X	0.1575	=		
(040)	Unaffiliated Preferred Stock-NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X	0.1575	=		
(041)	Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X	0.1575	=		
(042)	Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=		
(043)	Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=		
(044)	Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	=		†
(045)	Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=		
	Separate Accounts							
(046)	Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=		
(047)	Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=		
(048)	Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=		
(049)	Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	=		†
(050)	Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=		
(051)	Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=		
(052)	Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=		
	Real Estate							
(053)	Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=		
(054)	Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=		
(055)	Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=		
(056)	Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	=		†
(057)	Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X	0.2100	=		
	Schedule BA							
(058)	Sch BA Real Estate Excluding ~~Low Income Housing~~ -Tax Credits ~~Investments~~	LR007 Real Estate Column (3) Line (16)		X	0.2100	=		
(059)	~~Guaranteed Low Income Housing Tax Credit Yield Guaranteed State Tax Credit Investments~~	LR007 Real Estate Column (3) Line (17) ~~+ Line (19)~~		X	0.0000	=		
(060)	~~Non-Guaranteed Federal Low Income Housing Tax Credit~~ Qualifying and Other Tax Credit Investments	LR007 Real Estate Column (3) Line (18) ~~+ Line (19)~~ + Line (20) ~~+ Line (21)~~		X	0.0000	=		
(061)	Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	=		†
(062)	Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=		

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(063)	Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)		X	0.1575	=		
(064)	Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)		X	0.1575	=		
(065)	Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)		X	0.1575	=		
(066)	Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)		X	0.1575	=		
(067)	Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)		X	0.1575	=		
(068)	Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)		X	0.2100	=		
(069)	BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)		X	0.2100	=		†
(070)	BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)		X	0.2100	=		
(071)	BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line (12)		X	0.1575	=		
(072)	BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)		X	0.1575	=		
(073)	BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)		X	0.1575	=		
(074)	BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)		X	0.1575	=		
(075)	BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)		X	0.1575	=		
(076)	BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)		X	0.2100	=		
(077)	BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)		X	0.2100	=		†
(078)	BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)		X	0.2100	=		
(079)	Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)		X	0.1575	=		
(080)	Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)		X	0.1575	=		
(081)	BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (50.3) ~~(48.3)~~		X	0.2100	=		
(082)	BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (51 ~~50~~)		X	0.1575	=		
(083)	Other Schedule BA Assets	LR008 Other Long-Term Assets Column (5) Line (53.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)		X	0.2100	=		
(084)	Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)		X	0.2100	=		†
(085)	Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (56)		X	0.2100	=		
(086)	BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (12)		X	0.1575	=		
(087)	BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (16)		X	0.1575	=		
(088)	BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (20)		X	0.1575	=		
(089)	Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)		X	0.2100	=		†
(090)	Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (23)		X	0.2100	=		
	Miscellaneous							
(091)	Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page		X	0.1575	=		
(092)	Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)		X	0.1575	=		
(093)	Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)		X	0.1575	=		
(094)	Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)		X	0.1575	=		
(095)	Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)		X	0.1575	=		
(096)	Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)		X	0.1575	=		
(097)	Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)		X	0.1575	=		
(098)	Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)		X	0.1575	=		
(099)	Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)		X	0.2100	=		
(100)	Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)		X	0.2100	=		†
(101)	Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)		X	0.2100	=		

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LR030

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)		X	0.1575	=		
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=		
(104)	Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)		X	0.2100	=		
(105)	Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)		X	0.2100	=		
(106)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)		X	0.2100	=		
(107)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)		X	0.2100	=		
(108)	Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)		X	0.2100	=		
(109)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)		X	0.2100	=		
(110)	Subtotal for C-1o Assets	Sum of Lines (001) through (109), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)						
	C-0 Affiliated Common Stock							
(111)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=		
(112)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=		†
(113)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=		
(114)	Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)		X	0.2100	=		
(115)	Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)		X	0.2100	=		
(116)	Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)		X	0.2100	=		
(117)	Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)		X	0.2100	=		
(118)	Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)		X	0.2100	=		
(119)	Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)		X	0.2100	=		
(120)	Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)		X	0.0000	=		
(121)	Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)		X	0.0000	=		
(122)	Subtotal for C-0 Affiliated Common Stock	Lines (111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)+(120)+(121)						
	Common Stock							
(123)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=		
(124)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)		X	0.2100	=		†
(125)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=		†
(126)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=		
	Schedule BA Unaffiliated Common Stock/ equity interests and Affiliated Non-Insurance Stock (C1-es), excluding							
(127)	**Residual Tranches or Interests ~~BA Common Stock Unaffiliated~~**	LR008 Other Long-Term Assets Column (5) Line **(49) ~~(47)~~ - Line (45)**		X	0.2100	=		
(128)	**Total Residual Tranches or Interests ~~Schedule BA Common Stock Affiliated - C-1es~~**	LR008 Other Long-Term Assets Column (5) Lines **~~(49.2) + (51)~~ (45)**		X	0.2100	=		
(129)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=		
(130)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.1)		X	0.1575	=		
(131)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.2)		X	0.1575	=		
(132)	Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)		X	0.2100	=		
(133)	Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)		X	0.2100	=		
(134)	Total for C-1cs Assets	Lines (123)-(124)-(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133)						
	Insurance Risk							
(135)	Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)		X	0.2100	=		

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Denotes items that must be manually entered on the filing software.

LR030

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect
(136)	Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)		X	0.2100	=	
(137)	Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (5)		X	0.2100	=	
(138)	Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (12)		X	0.2100	=	
(138b)	Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)		X	0.2100	=	
(139)	Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)		X	0.2100	=	
(140)	Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)		X	0.0000	=	
(141)	Total C-2 Risk	L(135) + L(136) + L(139) + L(140) + Greatest of [Guardrail Factor * (L(137)+L(138)), Guardrail Factor * L(138b), Square Root of [(L(137) + L(138))2 + L(138b)2 + 2 * (Correlation Factor) * (L(137) + L(138)) * L(138b)]]					
(142)	Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)		X	0.2100	=	
(143)	Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)		X	0.0000	=	
(144)	Market Risk	LR027 Interest Rate Risk Column (3) Line (37)		X	0.2100	=	
(145)	Business Risk	LR029 Business Risk Column (2) Line (40)		X	0.2100	=	
(146)	Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)		X	0.0000	=	
(147)	Total Tax Effect	Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146)					

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

LR030

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		Source	(1) RBC Requirement
	Insurance Affiliates and Misc. Other Amounts (C-0)		
(1)	Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	
(2)	Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	
(3)	Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	
(4)	Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	
(5)	Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	
(6)	Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	
(7)	Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	
(8)	Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	
(9)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	
(10)	Total (C-0) - Pre-Tax	Sum of Lines (1) through (9)	
(11)	(C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122)	
(12)	Net (C-0) - Post-Tax	Line (10) - Line (11)	
	Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)		
(13)	Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(14)	**Schedule BA Unaffiliated Common Stock/ equity interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests** ~~Schedule BA Unaffiliated Common Stock~~	LR008 Other Long-Term Assets Column (5) line **(49)** ~~**(47)**~~ **- (45)**	
(15)	**Total Residual Tranches or Interests** ~~Schedule BA Affiliated Common Stock - C-1cs~~	LR008 Other Long-Term Assets Column (5) lines ~~**(49,2) + (51)**~~ **(45)**	
(16)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(17)	Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	
(18)	Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	
(19)	Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	
(20)	(C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	
(21)	Net (C-1cs) - Post-Tax	Line (19) - Line (20)	
	Asset Risk - All Other (C-1o)		
(22)	Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(23)	Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(24)	Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(25)	Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	
(26)	Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	
(27)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	
(28)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	
(29)	Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	
(30)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	
(31)	Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Requirement
(32)	Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(33)	Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(34)	Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(35)	Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(36)	Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(37)	Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)	
(38)	Concentration Factor	LR010 Asset Concentration Factor Column (6) Line [illegible] Grand Total Page	
(39)	Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(40)	Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(41)	Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(42)	Total (C-1o) - Pre-Tax	Sum of Lines (22) through (41)	
(43)	(C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110)	
(44)	Net (C-1o) - Post-Tax	Line (42) - Line (43)	
	Insurance Risk (C-2)		
(45)	Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (5)	
(46)	Group and Credit Life Insurance and FEGI/SGLI	LR025 Life Insurance Column (2) Line (12)	
(46b)	Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(47)	Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(48)	Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(49)	Total (C-2) - Pre-Tax	L(47) + L(48) + Greatest of [Guardrail Factor * (L(45)+L(46)), Guardrail Factor * L(46b), Square Root of [(L(45) + L(46))2 + L(46b)2 + 2 * (Correlation Factor) * (L(45) + L(46)) * L(46b)]]	
(50)	(C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(51)	Net (C-2) - Post-Tax	Line (49) - Line (50)	
	Interest Rate Risk (C-3a)		
(52)	Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(53)	(C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(54)	Net (C-3a) - Post-Tax	Line (52) - Line (53)	
	Health Credit Risk (C-3b)		
(55)	Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(56)	(C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(57)	Net (C-3b) - Post-Tax	Line (55) - Line (56)	
	Market Risk (C-3c)		
(58)	Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	
(59)	(C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	
(60)	Net (C-3c) - Post-Tax	Line (58) - Line (59)	

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Requirement
	Business Risk (C-4a)		
(61)	Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	
(62)	Liability Component	LR029 Business Risk Column (2) Line (39)	
(63)	Subtotal Business Risk (C-4a) - Pre-Tax	Lines (61) + (62)	
(64)	(C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (145)	
(65)	Net (C-4a) - Post-Tax	Line (63) - Line (64)	
	Business Risk (C-4b)		
(66)	Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	
(67)	(C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (146)	
(68)	Net (C-4b) - Post-Tax	Line (66) - Line (67)	
	Total Risk-Based Capital After Covariance Before Basic Operational Risk		
(69)	C-0 + C-4a + Square Root of [(C-1o + C-3a)^2 + (C-1cs + C-3c)^2 + (C-2)^2 + (C-3b)^2 + (C-4b)^2]	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE L(12)+L(65) + Square Root of [(L(44) + L(54))^2 + (L(21) + L(60))^2 + L(51)^2 + L(57)^2 + L(68)^2]	
(70)	Gross Basic Operational Risk	0.03 x L(69)	
(71)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(72)	Net Basic Operational Risk	Line (70) - (Line (65) + Line (71)) (Not less than zero)	
(73)	Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	
(74)	Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (69) + Line (72) + Line (73)	
	Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)		
(75)	Total Risk-Based Capital After Covariance Times Fifty Percent	Line (74) x 0.50	
	Tax Sensitivity Test		
(76)	Tax Sensitivity Test: Total Risk-Based Capital After Covariance	L(10)+L(63) + Square Root of [(L(42) + L(52))^2 + (L(19) + L(58))^2 + L(49)^2 + L(55)^2 + L(66)^2]	
(77)	Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (76) x 0.50	

Denotes items that must be manually entered on the filing software.

LR031

Draft: 3/27/25

Property and Casualty Risk-Based Capital (E) Working Group
and the Catastrophe Risk (E) Subgroup
Indianapolis, Indiana
March 24, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Indianapolis, IN, March 24, 2025, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Charles Hale (AL); Rolf Kaumann (CO); Virginia Christy (FL); Sandra Darby (ME); Melissa Robertson (NM); Will Davis (SC); and Amy Garcia (TX). The following Subgroup members participated: Wanchin Chou, Chair (CT); Virginia Christy, Vice Chair (FL); Rolf Kaumann (CO); Travis Grassel (IA); Sandra Darby (ME); Melissa Robertson (NM); Tom Botsko (OH); Andy Schallhorn (OK); Will Davis (SC); and Amy Garcia (TX). Also participating were: David Wolf (NJ); Diana Sherman (PA); and Ted Hurley and John Tudino (RI).

1. Adopted the Working Group and Subgroup's Feb. 18, 2025; Jan. 16, 2025; and 2024 Fall National Meeting Minutes

Botsko said the Working Group and Subgroup met Feb. 18, 2025. During this meeting, the Working Group and Subgroup took the following action: 1) received an update from the Wildfire Model Review Ad Hoc Group on the CoreLogic Wildfire Model; 2) discussed the wildfire peril impact analysis; 3) discussed wildfire modeled losses impact analysis; 4) discussed climate impact disclosures; 5) discussed flood peril; 6) heard updates from the American Academy of Actuaries (Academy) on its current underwriting risk projects; and 7) exposed the Statutory Accounting Principles (E) Working Group referral for risk-based capital (RBC) assessment for capital notes and non-bond debt securities, which it had exposed for a 30-day public comment period that ended March 20. Botsko also said the Working Group and Subgroup conducted an e-vote that concluded Jan. 16, 2025, to adopt proposal 2024-23-CR (2024 U.S. and Non-U.S. Catastrophe Risk Event Lists), which the Working Group and Subgroup had exposed for a seven-day public comment period that ended Jan. 16.

Chou made a motion, seconded by Darby, to adopt the Working Group and Subgroup's Feb. 18, 2025 (Attachment Four-A); Jan. 16, 2025 (Attachment Four-B); and Nov. 18, 2024, minutes (*see NAIC Proceedings – Fall 2024, Capital Adequacy (E) Task Force, Attachment Three*). The motion passed unanimously.

2. Exposed Proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction)

Chou said as discussed during its Feb. 18 meeting, the NAIC received an inquiry on whether companies have flexibility in using quarter data other than annual year-end data to report the climate disclosures. He reiterated that the RBC report is an annual report. Companies should report on a year-end basis to be 1) consistent with other reporting schedules within the RBC report and 2) effective for future analysis purposes. Chou said the intent of this proposal is to clarify that the information companies provide is reflected on an annual basis.

The Working Group and Subgroup agreed to expose proposal 2025-06-CR (Attachment Four-C) for a 30-day public comment period ending April 23.

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3. Heard an Update from the Wildfire Model Review Ad Hoc Group Regarding the CoreLogic Wildfire Model Review

Christy said the Wildfire Model Review Ad Hoc Group continued its review of wildfire models by reviewing the final submission from CoreLogic. CoreLogic is being reviewed utilizing the same six-phase approach that was done for the AIR Worldwide, Risk Management Solutions (RMS), and Karen Clark & Company (KCC) wildfire models that were reviewed in 2021. Also, she indicated that CoreLogic provided its initial presentation in August 2024 and an abstract technical presentation at the end of September 2024. After the review of the abstract technical presentation, the Ad Hoc Group gathered and correlated questions and concerns, which were provided to CoreLogic in December 2024. The Ad Hoc Group met again with CoreLogic on Feb. 14, 2025, to address the supplementary information provided by CoreLogic addressing the Ad Hoc Group's questions and concerns. The Ad Hoc Group then met on March 18, 2025, to respond to the same survey questions posed in the 2021 reviews and to give Ad Hoc Group members a final forum to express comments regarding the acceptance of CoreLogic's model submission.

Christy said six of the seven members of the Ad Hoc Group were present and had no further comments or concerns and, therefore, indicated a consensus to proceed to the next step of the review, which is the impact analysis. Lastly, Christy said the impact analysis phase will begin the first full week of April, with the Ad Hoc Group working with vendors that will input data into the four models for sensitivity testing, and by mid-May, the Ad Hoc Group plans to review model outputs.

Chou said as the CoreLogic wildfire model was closed to complete review by the Ad Hoc Group, the Catastrophe Risk (E) Subgroup will invite the commercial modelers, which are AIR, RMS, KCC, and CoreLogic, to conduct another in-depth analysis of wildfire in the next couple of months. He stated that the Subgroup may start discussing whether wildfire peril should be included in the risk-based catastrophe analysis tool (Rcat) component after reviewing the analysis results.

4. Discussed the Wildfire Modeled Losses Impact Analysis Report

Chou indicated in its Feb. 18 meeting that the Subgroup has not determined whether the worst year out of 100 years should be used to calculate the wildfire charge in the Rcat component. He had asked NAIC staff to run an impact analysis using data from the worst years out of 50, 100, 250, and 500 years. Chou said the comparison of RBC action level with and without modeled wildfire losses report (Attachment Four-D) indicated that there is a minimal impact on the RBC ratio by using the worst year out of 100 years to calculate the wildfire charge in the Rcat component. He urged all the interested parties to review the report and continue the discussion in the upcoming meeting.

5. Heard an Update from the Academy on its Current Underwriting Risk Projects

Ron Wilkins (Academy) said in May 2019, the Academy property and casualty (P/C) RBC committee had agreed to share three analysis reports related to the calibration of premium and reserve risk with the Working Group over the proceeding years. The Line 4 factors report was issued in April 2021, and the Line 7 and 8 factors report was issued in August 2023. Currently, the committee is working on a draft of the third report, which is related to updating the R4 and R5 loss/premium concentration factors. He anticipated that this report would be released in the next few months.

Wilkins also stated that there are eight topics that the committee proposed to prioritize in 2025, which are: 1) concentration factors by line of business; 2) review methodology for RBC Line 1; 3) pooling; 4) payment patterns; 5) update line 4 catastrophe overlap adjustment for premium risk; 6) calculate risk charges for reserve

and premium risk; 7) insolvency history; and 8) calculation/programming and data. He indicated that these eight topics will be muti-year projects, for which the committee has not established detailed timelines. Lastly, he said the committee welcomes the Working Group members and interested parties to provide feedback on this plan. Botsko said the Working Group also welcomes feedback on any projects that were not included in the committee's prioritized projects but require further review.

6. Discussed the 2025 Underwriting Risk Factors

Botsko reminded all interested parties that during the April 25, 2024, meeting, the Working Group adopted proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors) with the: 1) 50% indicated change with capped international and product liability lines in 2024 and 100% indicated change with capped international and product liability lines in 2025 for reserve factors and 2) 50% indicated change with capped financial mortgage guaranty line in 2024 and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors. He indicated that there was no comment received during the exposure period. Botsko said 100% indicated change with capped international and product liability lines in 2025 reserve factors and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors will be imposed. He said the NAIC will share 2025 industry aggregate data with the industry in spring 2026.

Lastly, Botsko said the Working Group plans to expose the routine annual update to the Line 1 premium, and reserve industry underwriting factors in the P/C RBC formula in the upcoming meeting next month.

7. Discussed the Statutory Accounting Principles (E) Working Group Referral on Capital Notes and Non-Bond Debt Securities

Botsko said during their February meeting, the Working Group and Subgroup agreed to expose this referral and a comment letter from Spectrum Asset Management (Attachment Four-E) for a 30-day public comment period that ended March 20. During the exposure period, the Working Group and Subgroup did not receive any comment letters. Ed Toy (Interested Party) said consistency among all lines of business is warranted unless there are reasons for being inconsistent. He also recommended reviewing the Schedule BA investments holistically, not piecemeal. Chou commented that consistency is important, but the Working Group should also consider the differences among all lines of business, such as the long and short tail of the business. Botsko said the Working Group will document the discussions for future reference.

8. Discussed the Insights into Catastrophe Trends from the Actuaries Climate Index and the U.S. Billion-Dollar Disasters

Steve Kolk (Kolkulations LLC) said this discussion includes the following items: 1) climate indices which include phase one—actuaries climate index (ACI) and phase two—actuaries climate risk index (ACRI); 2) new insights on the horizon; and 3) exploratory data analysis (EDA) (Attachment Four-F). Chou said the Working Group and Subgroup appreciate Kolk's participation in the discussion. He urged interested parties to review the materials and provide feedback to the Working Group and Subgroup during its next meeting.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025-Spring/PCRBCWG/Joint PCRBC Cat Risk Minutes.docx

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Draft: 2/26/25

Property and Casualty Risk-Based Capital (E) Working Group
and the Catastrophe Risk (E) Subgroup
Virtual Meeting
February 18, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Feb. 18, 2025, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force. The following Working Group members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Wanchin Chou, Vice Chair, and George Bradner (CT); Charles Hale (AL); Eric Unger (CO); Virginia Christy (FL); Sandra Darby (ME); Will Davis (SC); Miriam Fisk (TX); and Adrian Jaramillo (WI). The following Subgroup members participated: Wanchin Chou, Chair (CT); Virginia Christy, Vice Chair (FL); Eric Unger (CO); Travis Grassel (IA); Sandra Darby (ME); Tom Botsko (OH); Andy Schallhorn (OK); Will Davis (SC); and Miriam Fisk (TX).

1. Received an Update from the Wildfire Model Review Ad Hoc Group on the CoreLogic Wildfire Model Review

Christy said the Wildfire Model Review Ad Hoc Group picked up the review of the wildfire models by reviewing the final submission from CoreLogic. CoreLogic is being reviewed utilizing the same 6-phase approach used for the AIR, RMS, and Karen Clark & Company (KCC) wildfire models reviewed in 2021. CoreLogic provided its initial presentation in August 2024 and an abstract technical presentation at the end of September 2024. After reviewing the abstract technical presentation, the Ad Hoc Group gathered and correlated questions and concerns, which were provided to CoreLogic in December 2024, so that a more in-depth concrete document detailing specific information and facts could be addressed. CoreLogic came before the Ad Hoc Group Feb. 14, 2025, to address questions and to present detailed technical documentation. Like many technical projects, a thorough review takes time. The Ad Hoc Group is working diligently to complete its review and will provide an update at the Spring National Meeting in late March.

2. Discussed the Wildfire Peril Impact Analysis

Chou said as the CoreLogic wildfire model was closed to complete review by the Wildfire Model Review Ad Hoc Group, the Subgroup will invite the commercial modelers, which are AIR, RMC, KCC, and CoreLogic, to conduct another in-depth analysis of wildfire in the next couple of months. Then, the modelers will share model results with the Ad Hoc Group members who have signed nondisclosure agreements (NDAs). He also stated that he and NAIC staff will follow up with the previous Ad Hoc Group members to discuss the impact analysis review plan. Lastly, Chou said he anticipates that updates will be provided in June.

3. Discussed Wildfire Modeled Losses Impact Analysis

Chou said the current catastrophe risk charge for earthquake and hurricane is calculated using the worst year in 100. However, the Subgroup has not determined whether it should be used to calculate the wildfire charge. He asked NAIC staff to run an impact analysis using data from the worst years in 50, 100, 250, and 500; findings will be discussed at the Spring National Meeting. Sheri Scott (Milliman) asked if the NAIC could provide the industry aggregate data so companies can benchmark themselves against it. Chou said the NAIC will try to share some useful information at the Spring National Meeting.

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4. Discussed Climate Impact Disclosures

Chou reiterated that the disclosure of climate-conditioned catastrophe exposure will only be effective for 2024, 2025, and 2026 risk-based capital (RBC) reporting. He stated that the NAIC established a Climate Scenario Resource Center to assist companies and their advisors with the disclosure requirements. Chou also indicated that the resource center is located on the NAIC Catastrophe Modeling Center of Excellence's (COE's) web page. The resources include the RBC blanks relating to catastrophe risk, a presentation by the NAIC, and a frequently asked questions (FAQ) document, as well as a dedicated email address for filers and their advisors to submit questions to the NAIC relating to the new climate scenario interrogatories.

In addition, Chou said the NAIC received an inquiry on whether companies have flexibility in using quarter data other than annual year-end to report the climate disclosures. He stated that the RBC report is an annual report. He said companies should report on a year-end basis to be: 1) consistent with other reporting schedules within the Risk-Based Capital report; and 2) effective for future analysis purposes. Botsko agreed and recommended adding a sentence to the instructions to clarify this issue. Chou said that without hearing any objection from the Subgroup, NAIC staff will draft a proposal for discussion at the Spring National Meeting.

5. Discussed Flood Peril

Chou said the Subgroup will invite Stephen L. Kolk (Kolkulations LLC) to discuss: 1) the Federal Emergency Management Agency (FEMA) National Risk Index (NRI) dataset; 2) the climate risk index; and 3) the private flood market at the Spring National Meeting. Also, Chou planned to schedule another panel discussion on flood during the summer. He anticipated that the Subgroup would begin discussing the possibility of including flood in the RBC report for informational purposes only by the Fall National Meeting. This is a continued effort to address the Climate and Resiliency (EX) Task Force referral from spring 2021. Specifically, the Task Force's recommendations consider "wildfire," "flood," "convection storms," and other perils where commercial modelers have developed products being used by insurers.

6. Heard Updates from the Academy on its Current Underwriting Risk Projects

Ronald Wilkins (American Academy of Actuaries—Academy) provided a brief update on Academy projects and said more detailed updates will be provided during the Spring National Meeting. He also stated that the Academy has been working to develop a draft project plan that will circulate with the Working Group during the upcoming Spring National Meeting about updating the property and casualty (P/C) RBC calibration. Wilkins said the current report that the Academy produced in the past used data from the 2017 annual statement. He indicated that the Academy plans to update the calculations for premium risk and reserve risk to reflect the more recent data and apply all the key elements of the methodology, such as filtering, that have been documented in the Academy's reports in 2021 and 2023. In addition, Wilkins said another project the Academy is working on is the report on dependency by line of business of premium risk and reserve risk. He also stated that the drafted report will be going through the Academy review process and, hopefully, it can be shared with the Working Group in a few months.

7. Exposed the Statutory Accounting Principles (E) Working Group Referral for RBC Assessment for Capital Notes and Non-Bond Debt Securities

Bruggeman said the Statutory Accounting Principles (E) Working Group received comments in the review of *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*, which identified that P/C and health companies do not have the ability to receive more granular RBC for capital notes, whereas life companies have the ability to report ratings from credit rating providers (CRPs) for held capital notes

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to influence RBC. These comments noted that by classifying certain debt securities as capital notes, which are reported on Schedule BA, the RBC impact for P/C and health companies would impose an onerous capital requirement on a highly rated instrument. These comments requested that this matter be reviewed and that P/C and health insurers be able to follow the provisions permitted by life companies for capital notes report on Schedule BA. He stated that the Statutory Accounting Principles (E) Working Group has identified that differences also exist in the calculation of RBC for non-bond debt securities that will be reported on Schedule BA after the principles-based bond definition becomes effective Jan. 1, 2025.

Bruggeman said the Working Group agreed to send a referral to inform the P/C and health RBC working groups of the comments and to allow the RBC working group to consider whether modifications for both capital notes and non-bond debt securities should be incorporated into the RBC formula accordingly. Botsko said consistency is warranted, but whether it is necessary requires further discussion. He encouraged all interested parties to provide feedback during the exposure period and continue discussion at the Spring National Meeting.

The Working Group and Subgroup agreed to expose this referral and a comment letter from Spectrum Asset Management (Attachment Four-A1) for a 30-day public comment period ending March 20.

Botsko said the Working Group and Subgroup plan to meet to continue the discussion at the Spring National Meeting.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Tom Botsko, Chair of the Property & Casualty Risk-Based Capital (E) Working Group
Wanchin Chou, Vice-Chair of the Property & Casualty Risk-Based Capital (E) Working Group
Steve Drutz, Chair of the Health Risk-Based Capital (E) Working Group
Matthew Richard, Vice-Chair of the Health Risk-Based Capital (E) Working Group

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

DATE: November 19, 2024

RE: SAPWG Referral for RBC Assessment for Capital Notes and Non-Bond Debt Securities

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On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers to provide application guidance to certain investments in accordance with the adopted bond definition. This adopted INT includes guidance for the classification of certain investments, primarily those issued by banks and treated as capital by banking regulators similarly to how insurance regulators treat surplus notes, as capital notes in scope of *SSAP No. 41—Surplus Notes*. Although the guidance for capital notes in SSAP No. 41 is not new, it is anticipated that limited investments have been previously reported under those guidelines, as those investments were likely reported as bonds prior to the adopted principles-based bond definition.

Comments received (see attached) in the review of INT 24-01 identified that property & casualty and health companies do not have the ability to receive more granular RBC for capital notes, whereas life companies have the ability to report ratings from credit rating providers (CRPs) for held capital notes to influence RBC. These comments noted that by classifying certain debt securities as capital notes, which are reported on Schedule BA, the RBC impact for P&C and health companies would impose an onerous capital requirement on a highly rated instrument. Note that this dynamic already exists for surplus notes. These comments requested this matter to be reviewed, and that P&C and health insurers be able to follow the provisions permitted by life companies for capital notes reported on Schedule BA.

In considering these comments, the Statutory Accounting Principles (E) Working Group did not incorporate any revisions prior to the adoption of the INT, as investments shall be accounted and reported based on the applicable statutory accounting guidance, regardless of the resulting RBC charge. The Working Group did agree to send a referral to the P&C and Health RBC Working Groups to inform of the comments and to allow for the RBC Working Groups to consider whether modifications should be incorporated into the RBC formula accordingly.

Although the specific comment was focused on capital notes, the Statutory Accounting Principles (E) Working Group has also identified that differences also exist in the calculation of RBC for non-bond debt securities that will be reported on Schedule BA after the principles-based bond definition becomes effective on January 1, 2025. If RBC consistency by type of insurer is desired, consideration may be appropriate for both capital notes and non-bond debt securities.

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- Capital Notes & Surplus Notes: Life insurers with investments reported as held capital notes or surplus notes on Schedule BA are permitted to report these investments with CRP ratings. Items reported with CRP ratings result with RBC that corresponds to the bond factors.

- Non-Bond Debt Securities: Life insurers that report non-bond debt securities on Schedule BA are permitted to report these investments with an SVO-Assigned designation. Items reported with SVO-Assigned designations flow through AVR similar to a bond with a corresponding NAIC designation. For these investments, only SVO-Assigned designations are permitted, and ratings received from credit-rating providers cannot be used in allocating the investment through AVR.

The Working Group appreciates your time and consideration of this referral, recognizing that any changes for the RBC of P&C and Health companies is strictly within the purview of the RBC Working Groups. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Maggie Chang, Kazeem Okosun; Derek Noe

Attachment: Comment Letter Dated Oct. 28, 2024 from Spectrum Asset Management, LLC

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2024/SAPWG to PCRBC and HRBC - Bonds - 11-18-24.docx

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Draft: 1/24/25

Property and Casualty Risk-Based Capital (E) Working Group
and Catastrophe Risk (E) Subgroup
E-Vote
January 16, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force that concluded Jan. 16, 2025. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Eric Unger (CO); Sandra Darby (ME); Will Davis (SC); Miriam Fisk (TX); and Adrian Jaramillo (WI). The following Subgroup members participated: Wanchin Chou, Chair (CT); Eric Unger (CO); Sandra Darby (ME); Tom Botsko (OH); Andrew Schallhorn (OK); Will Davis (SC); and Miriam Fisk (TX).

1. Adopted the Updated 2024 U.S. and Non-U.S. Catastrophe Risk Event Lists

The Working Group and Subgroup conducted an e-vote to consider adoption of proposal 2024-23-CR (2024 U.S. and Non-U.S. Catastrophe Risk Event Lists). One comment letter (Attachment Four-B1) was received during the exposure period, and the proposal was revised accordingly.

Unger made a motion, seconded by Darby, to adopt the 2024 U.S. and non-U.S. catastrophe risk event lists (Attachment Four-B2). The motion passed unanimously.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E 20CMTE/CADTF/2025_Spring/PRBC/Att4B PCRBC-Cat Risk Email Vote 01162025.docx

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From: Morales, Roel <Roel.Morales@AmericanNational.com>
Sent: Monday, January 13, 2025 4:00 PM
To: Noe, Derek <dnoe@naic.org>
Subject: 2024 U.S. and non-U.S. Catastrophe Event Lists

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Derek,

I believe there is an error in your list.

2019 Hurricane Lorenzo did not have a US impact. I believe you mean Tropical Storm Olga based on the location.

Also, why was Eta not listed under US cat hurricanes in 2020? Was it because it was mostly a flood event?

Additionally, Wanda might be listed twice – on the hurricane list and then on the convective storm list from 10/25/21-10/27/21

Thank you,

Roel Morales

Roel Morales, ACAS

Assistant Actuary II – BP&C Shared Services Capital Modeling

417.887.4990 EXT. 2654

AMERICAN NATIONAL Roel.Morales@AmericanNational.com

Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force [ ] Health RBC (E) Working Group [ ] Life RBC (E) Working Group
[x] Catastrophe Risk (E) Subgroup [ ] Investment RBC (E) Working Group [ ] Op Risk RBC (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup [ ] P/C RBC (E) Working Group [ ] Stress Testing (E) Subgroup

DATE:	**1/7/2024**
CONTACT PERSON:	**Derek Noe**
TELEPHONE:	**816-783-8973**
EMAIL ADDRESS:	**dnoe@naic.org**
ON BEHALF OF:	**Catastrophe Risk (E) Subgroup**
NAME:	**Wanchin Chou**
TITLE:	**Chair**
AFFILIATION:	**Connecticut Department of Insurance**
ADDRESS:	**153 Market St,**
	Hartford, CT 06103

FOR NAIC USE ONLY

Agenda Item # 2024-23-CR

Year 2024

DISPOSITION

[ ] ADOPTED 1st release:11/18/24 WG/TF
2nd release:

[ ] REJECTED

[ ] DEFERRED TO

[ ] REFERRED TO OTHER NAIC GROUP

[x] EXPOSED 1st release:11/4/24
2nd release:1/7/2025

[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [ ] Life RBC Instructions
[ ] Fraternal RBC Blanks [ ] Health RBC Instructions [ ] Property/Casualty RBC Instructions
[ ] Life RBC Blanks [ ] Fraternal RBC Instructions [x] OTHER Cat Event Lists

DESCRIPTION OF CHANGE(S)

2024 U.S. and non-U.S. Catastrophe Event Lists

REASON OR JUSTIFICATION FOR CHANGE **

New events were determined based on the sources from Swiss Re and Aon Benfield.

Additional Staff Comments:

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**** This section must be completed on all forms.** **Revised 11-2013**

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Attachment Four-B2
Capital Adequacy (E) Task Force
3/25/25

U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Type of Event	Name	Date	Location	Overall losses when occurred
Hurricane	Patricia	2015		25+ million
Hurricane	Joaquin	2015		25+ million
Wildfire	Butte Fire	9/9/15-10/1/15	Amador County, California	~ 300 million
Wildfire	Valley Fire	9/12/15-10/15/15	Lake, Napa and Sonoma County, California	~ 700 million
Hurricane	Matthew	2016	Florida, North Carolina, South Carolina, Georgia and Virginia	$ 2,698,400,000
Hurricane	Hermine	2016	Florida, North Carolina, South Carolina, Georgia and Virginia	$ 245,640,000
Wildfire	Erskine Fire	6/23/16-7/11/16	Lake Isabella, Kern County, California	~26 million
Wildfire	Soberanes Fire	7/22/16-9/30/16	Soberanes Creek, Garrapata State Park, Santa Lucia Preserve, Monterey County, California	> 200 million
Wildfire	Chimney Fire	8/13/16-9/6/16	Santa Lucia Range, San Luis Obispo County, California	> 25 million
Wildfire	Clayton Fire	8/13/16-8/26/16	Lake County, California	>25 million
Wildfire	Gatlinburg Wildfire	11/29/16-12/5/16	Sevier County, Gatlinburg, Pigeon Forge, Tennessee	~637 million
Wildfire	Northern California Wildfires	10/8/17-10/31/17	Northern California	~ 11 billion
Wildfire	Southern California Wildfires	12/4/17-12/23/17	Southern California	~ 2.2 billion
Hurricane	Harvey	2017	Texas, Lousiana	25+ million
Hurricane	Jose	2017	East Coast of the United States	25+ million
Hurricane	Irma	2017	Eastern United States	25+ million
Hurricane	Maria	2017	Southeastern United States, Mid-Atlantic States	25+ million
Hurricane	Nate	2017	Louisiana, Mississippi, Alabama, Tennessee and Eastern United States	25+ million
Tropical Storm	Alberto	2018	Southeast, Midwest	25+ million
Hurricane	Lane	2018	Hawaii	25+ million
Tropical Storm	Gordon	2018	Southeast, Gulf coast of the United States, Arkansas and Missouri	25+ million
Hurricane	Florence	2018	Southeast, Mid-Atlantic	25+ million
Hurricane	Michael	2018	Southeastern and East Coasts of United States	25+ million
Wildfire	Spring Creek Fire	6/27/18-7/11/18	Spring Creek, Colorado	< 100 million
Wildfire	Carr, Mendocino California Wildfires	7/23/18-8/15/18	Northern California	>1,000 million
Wildfire	Northern California Camp Wildfire	11/8/18-11/25/18	Butte County, California	>7.5 billion
Wildfire	Southern California Woolsey Wildfires	11/8/18-11/21/18	Los Angeles andVentura County, California	2.9 billion
Hurricane	Dorian	2019	Southeast, Mid-Atlantic	500+ million
Hurricane	Barry	2019	Southeast, Midwest, Northeast	300+ million
Tropical Storm	Imelda	2019	Plains, Southeast	25+ million
Tropical Storm	Nestor	2019	Southeast	25+ million
Tropical Storm	Olga	2019	Louisiana, Mississippi, Texas and Arkansas	25+ million
Wildfire	Saddleridge Wildfire	10/10/19-10/23/19	Sylmar, Los Angeles, Calimesa, Riverside County, California	<1,000 million
Wildfire	Kincade Wildfire	10/23/19-11/6/19	Northeast of Geyserville, Sonoma County, California	<1,000 million
Tropical Storm	Cristobal	2020	Southeast, Plains, Midwest	150 million
Tropical Storm	Fay	2020	Southeast, Northeast	400 million
Hurricane	Hanna	2020	Texas	350 million
Hurricane	Isaias	2020	Southeast, Mid-Atlantic, Northeast	> 3 billion
Hurricane	Laura	2020	Plains, Southeast, Mid-Atlantic	> 4 billion
Hurricane	Sally	2020	Southeast (Alabama, Mississippi, Louisiana)	> 1 billion
Tropical Storm	Beta	2020	Plains, Southeast	25+ million
Hurricane	Delta	2020	Gulf Coast of United States, Southeast, Northeast (AL, GA, NC, SC, MS, LA, TX)	> 2 billion
Hurricane	Eta	2020	Florida	>1 billion
Hurricane	Zeta	2020	Gulf coast of the United States, Southeastern United States, Mid-Atlantic	> 1.5 billion
Wildfire	Cameron Peak	08/13/20-12/02/20	Roosevelt National Forest, Larimer County, Colorado	~71 million
Wildfire	SCU Lighting Complex Wildfire	8/16/20-9/16/20	San Franciscon Bay Area, Central Valleym Santa Clara, Alameda, Contra Costa, San Joaquin, Merced, Stanislaus	<1,000 million
Wildfire	Beachie Creek Wildfire	8/16/20-10/10/20	Approx. 2 miles south of Jaw Bones flats in rugged terrain deep in the Opal Creek Wilderness.	>1,000 million
Wilfire	CZU Lightning Complex Wildfire	8/16/20-9/22/20	San Mateo and Santa Cruz Counties, California	>1,000 million
Wildfire	LNU Lightning Complex WildFire	8/17/20-10/2/20	Lake, Napa, Sonoma, Solano, and Yolo Counties, California	> 1,000 million
Wildfire	Carmel Fire	8/18/20-9/4/20	Carmel Valley, California	<1,000 milion
Wildfire	North Complex Fire	8/18/20-10/12/20	Plumas and Butte Counties, California	<1,000 milion
Wildfire	Creek Fire	9/4/20-10/12/20	Fresno and Madera Counties, California	<1,000 milion
Wildfire	Bobcat Fire	9/6/20-10/23/20	Central San Gabriel Mountains, in and around the Angeles National Forest California	< 1,000 million
Wildfire	Babb Road Fire	9/7/20-9/18/20	Malden and Pine City, Palouse County of Eastern Washington	<1,000 million
Wildfire	Almeda Fire	9/7/20-9/16/20	Jackson County, Oregon	<1,000 milion

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U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Wildfire	Holiday Farm Fire	9/7/20-10/3/20	Willamette National Forest	<1,000 milion
Wildfire	Echo Mountain Complex Fire	9/7/20-9/23/20	north of Lincoln City, Oregon	<100 milion
Wildfire	Riverside FIre	9/8/20-10/3/20	Valley Drive between Misty Ridge Drive and Mitchell Avenue, Oregon	<100 milion
Wildfire	Slater Fire	9/8/20-10-9/20	Northern California and Southern Oregon	<100 million
Wildfire	Glass Fire	9/27/20-10/19/20	Napa and Sonoma Counties, California	> 1,000 million
Wildfire	East Troublesome Fire	10/14/20-11/9/20	Grand County, Colorado	~543 million
Tropical Storm	Claudette	2021	Gulf Coast of the United States, Georgia, Carolinas	> 350 million
Hurricane	Elsa	2021	East Coast of the United States	1.2 billion
Tropical Storm	Fred	2021	Eastern United States (particularly Florida and North Carolina)	1.3 billion
Hurricane	Henri	2021	Northeastern United States	550 million
Hurricane	Ida	2021	Gulf Coast of the United States (especially Louisana), East Coast of the United States (especially the Northeastern United States)	44 billion
Tropical Storm	Nicholas	2021	LA, TX	>1.1b
Tropical Storm	Wanda	2021	Southern United States, Mid-Atlantic United States, Northeastern United States	>200 million
Wildfire	Bootleg Wildfire	7/17/21-8/6/21	Northwest of Beatty, Oregon	<1,000 million
Wildfire	Dixie Wildfire	7/14/21-10/5/21	Butte, Plumas, Tehama, Lassen and Shasta Counties, California	>1,000 million
Wildfire	Caldor Fire	8/14/21-10/5/21	El Dorado National Forest and other areas of the Sierra Nevada in El Dorado, Amador, and Alpine County, Calfornia	<1,000 million
Wildfire	Corkscrew Fire	8/15/21-8/30/21	Ford, WA; Tum Tum, Springdale, City of Deer Park, Loon Lake, Clayton, H395, Scoop Mt	<100 million
Wilfire	Marshall Fire	12/30/21-1/1/22	Boulder County, Colorado	~ 2 billion
Wildfire	Calf Canyon/Hermits Peak Fire	4/6/22-8/22/22	San Miguel County, Mora County, Taos County	> 25 million
Wildfire	McKinney Fire	7/29/22-9/7/222	Siskiyou County, Northern California	> 25 million
Wildfire	Cedar Creek Fire	8/1/22-present	Central Oregon	> 25 million
Wildfire	Mosquito Fire	9/6/22- present	Northern California, Placer County, El Dorado County	> 25 million
Hurricane	Hurricane Fiona	9/18/22-9/20/22	PR	>3 billion
Hurricane	Ian	9/23/22-10/2/22	Florida and the Carolinas, FL, GA, NC, SC, VA	>110 billion
Hurricane	Hurricane Nicole	11/9/22-11/11/22	FL, GA, SC	>1 billion
Wildfire	Hawaii Wildfire	8/8/23-8/17/23	Hawaii	> 25 million
Hurricane	Hurricane Hilary	8/17/23-8/22/23	West, Southwest United States	> 25 million
Wildfire	Washington Wildfire	8/18/23-8/22/23	Washington	> 25 million
Hurricane	Hurricane Idalia	8/27/23-8/31/23	Southeastern United States	> 25 million
Hurricane	Hurricane Lee	9/14/23-9/17/23	Northeast United States	> 25 million
Tropical Storm	Ophelia	9/22/23-9/26/23	East Coast of the United States	> 25 million
Severe Convective Storm		1/8/24-1/10/24	Nationwide	> 25 million
Winter Storm		1/11/24-1/18/24	Nationwide	> 25 million
Severe Convective Storm		1/19/24-1/22/24	Nationwide	> 25 million
Severe Convective Storm	Jan Southern SCS	1/22/24-1/26/24	Nationwide	> 25 million
Severe Convective Storm	Early Feb Outbreak	2/8/24-2/13/24	Midwest, Southeast	> 25 million
Severe Convective Storm	Polar Front & SCS	2/26/24-2/29/24	Nationwide	> 25 million
Severe Convective Storm	Western US Storm	2/28/24-3/4/24	Nationwide	> 25 million
Wildfire	Smokehouse Creek Fire	2/26/24-3/9/24	Texas	> 25 million
Severe Convective Storm		2/28/24-3/2/28	Ohio, Pennsylvania	> 25 million
Severe Convective Storm	Early March Storm Complex	3/6/24-3/11/24	Southeast, Midwest	> 25 million
Winter Storm	Colorado Snow Storm	3/13/24-3/15/24	Colorado	> 25 million
Severe Convective Storm	Mid-March SCS Outbreak	3/12/24-3/17/24	Northeast	> 25 million
Severe Convective Storm	San Antonio Hail & SCS	3/21/24-3/23/24	Texas	> 25 million
Severe Convective Storm	Late March Southern SCS	3/24/24-3/28/24	California, Southeast	> 25 million
Severe Convective Storm	Early April Outbreak	3/31/24-4/4/24	California, Midwest	> 25 million
Severe Convective Storm	Southern SCS & Floods	4/6/24-4/12/24	Nationwide	> 25 million
Severe Convective Storm	April Mid-Atlantic SCS	4/14/24-4/16/23	US	> 25 million
Severe Convective Storm	April Plains & Midwest SCS	4/15/24-4/16/24	Texas, Missouri	> 25 million
Severe Convective Storm	Central & Eastern Outbreak	4/17/24-4/20/24	Southeast	> 25 million
Severe Convective Storm	Texas April SCS	4/19/24-4/21/24	Texas	> 25 million
Severe Convective Storm	Late April Central SCS	4/25/24-4/29/24	Midwest, Southwest	> 25 million
Severe Convective Storm	Early May Hail	4/30/24-5/2/24	Kansas, Oklahoma, Texas	> 25 million
Severe Convective Storm	Texas SCS	5/3/24-5/5/24	Texas	> 25 million
Severe Convective Storm	Early May SCS	5/6/24-5/10/24	Nationwide	> 25 million

3

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U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Severe Convective Storm	Southern SCS	5/11/24-5/14/24	Southwest, Southeast	> 25 million
Severe Convective Storm	Houston Derecho	5/15/24-5/19/24	Southwest, Southeast	> 25 million
Severe Convective Storm	Mid-May SCS	5/17/24-5/22/24	Nationwide	> 25 million
Severe Convective Storm	Late May Plains Outbreak	5/23/24-5/24/24	Southwest, Midwest	> 25 million
Severe Convective Storm	Late May Central & East SCS	5/25/24-5/26/24	Nationwide	> 25 million
Severe Convective Storm	Dallas SCS	5/27/24-5/29/24	Southwest	> 25 million
Severe Convective Storm	Denver SCS	5/30/24-6/1/24	Southwest, Southeast	> 25 million
Severe Convective Storm	TX Hail & MD Tornadoes	6/2/24-6/5/24	Nationwide	> 25 million
Severe Convective Storm	Early June Outbreak	6/6/24-6/10/24	Nationwide	> 25 million
Severe Convective Storm	Colorado June SCS	6/9/24-6/10/24	Colorado	> 25 million
Severe Convective Storm	Midwest Mid-June Outbreak	6/12/24-6/13/24	Southwest, Midwest	> 25 million
Severe Convective Storm	Central & East Mid-June SCS	6/14/24-6/18/24	Nationwide	> 25 million
Wildfire	South Fork & Salt fires	6/17/24-6/25/24	New Mexico	> 25 million
Severe Convective Storm	Central & East Late-June SCS	6/19/24-6/23/24	Nationwide	> 25 million
Tropical Storm	Trophical Storm Alberto	6/19/24-6/20/24	Texas, Louisiana	> 25 million
Severe Convective Storm		6/24/24-6/26/24	Nationwide	> 25 million
Severe Convective Storm	US Lat-June Outbreak	6/27/24-6/30/24	Nationwide	> 25 million
Severe Convective Storm	Early July Plains Outbreak	7/1/24-7/4/24	Nationwide	> 25 million
Severe Convective Storm	Southeast SCS	7/1/24-7/4/24	Nationwide	> 25 million
Hurricane	Hurricane Beryl	7/1/24-7/12/24	Texas, Louisiana, the Ohio Valley, and the Lower Peninsula of Michigan	> 25 million
Severe Convective Storm	Early July Central Outbreak	7/6/24-7/7/24	Nationwide	> 25 million
Severe Convective Storm	Chicago Derecho & SCS	7/13/24-7/18/24	Nationwide	> 25 million
Severe Convective Storm	Arizon Monsoon SCS	7/14/24-7/15/24	Arizona	> 25 million
Severe Convective Storm	Late July Central Outbreak	7/19/24-7/20/24	Nationwide	> 25 million
Severe Convective Storm	July Southwest Monsoon	7/15/24-7/21/24	Nationwide	> 25 million
Severe Convective Storm	Late July US SCS Outbreak	7/24/24-8/1/24	Nationwide	> 25 million
Wildfire	Park Fire California	7/24/24-8/20/24	California	> 25 million
Severe Convective Storm	Early Aug Eastern Outbreak	8/2/24-8/3/24	Nationwide	> 25 million
Severe Convective Storm	Minnesota Aug SCS	8/3/24-8/5/24	Minnesota	> 25 million
Hurricane	Hurricane Debby	8/3/24-8/14/24	Florida, Georgia, and the Carolinas	> 25 million
Severe Convective Storm	Northeast July SCS	8/4/24-8/6/24	Northeast	> 25 million
Severe Convective Storm	Mid August SCS	8/12/24-8/19/24	Nationwide	> 25 million
Severe Convective Storm	August Northern Outbreak	8/22/24-8/30/24	Nationwide	> 25 million
Hurricane	Hurricane Francine	9/9/24-9/14/24	Mississippi and Louisiana	> 25 million
Severe Convective Storm	Oklahoma City Hail & SCS	9/21/24-9/24/24	Oklahoma	> 25 million
Hurricane	Hurricane Helene	9/24/24-9/29/24	Florida, Carolinas, Georgia, Alabama, Tennessee, Kentucky, Virginia, West Virginia, Illinois, Indiana, Ohio	> 25 million
Hurricane	Hurricane Milton	10/5/24-10/12/24	Florida, Georgia	> 25 million
Severe Convective Storm		11/2/24-11/4/24	South Central US	>25 million
Wildfire	Wildland Fire Mountain Fire	11/6/24-11/14/24	California	>25 million
Winter storm		11/19/25-11/24/24	Nationwide	>25 million
Wind and thunderstorm		12/13/24-12/16/24	Northeast, West Coast	>25 million
Wind and thunderstorm		12/26/24-12/29/24	South	>25 million

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Non U.S. List of Catastrophes For Use in Reporting Catastrophe Data in PR036 and PR100+

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
2015	Hurricane	08/16/92	08/28/92	Hurrican Andrew	Bahamas	Bahamas			> 25 million
2015	Hurricane	10/20/15	10/24/15	Hurricane Patricia		Central America, Mexico	N/A	N/A	> 25 million
2015	Typhoon	06/26/15	07/13/15	Typhoon Chan-hom (Falcon)		Guam, Northern Mariana Islands, Philippines, Japan, Taiwan, Chian, Korea, Russian Far East	N/A	N/A	> 25 million
2015	Severe Tropical Storm	07/01/15	07/10/15	Severe Tropical Storm Linfa (Egay)		Philippines, Taiwan, China	N/A	N/A	> 25 million
2015	Typhoon	07/02/15	07/18/15	Typhoon Nangka		Marshall Islands, Mariana Islands and Japan	N/A	N/A	> 25 million
2015	Typhoon	07/29/15	08/12/15	Typhoon Soudelor (Hanna)		Mariana Islands, Japan, Philippines, Taiwan, Eastern China and South Korea	N/A	N/A	> 25 million
2015	Typhoon	08/13/15	08/30/15	Typhoon Goni (Ineng)		Mariana Islands, Japan, Philippines, Taiwan, China, Russia and Korea	N/A	N/A	> 25 million
2015	Severe Tropical Storm	09/06/15	09/11/15	Severe Tropical Storm Etau		Japan, Russian Far East	N/A	N/A	> 25 million
2015	Typhoon	09/19/15	09/30/15	Typhoon Dujuan (Jenny)		Ryukyu Islands, Taiwan, East China	N/A	N/A	> 25 million
2015	Typhoon	09/30/15	10/05/15	Typhoon Mujigae (Kabayan)		Philippines, Vietnam and China	N/A	N/A	> 25 million
2015	Typhoon	10/12/15	10/21/15	Typhoon Koppu (Lando)		Northern Mariana Islands, Philippines, Taiwan, Ryukyu Islands	N/A	N/A	> 25 million
2015	Typhoon	12/03/15	12/08/15	Storm Desmond		Ireland, Isle of Man, United Kingdom, Iceland, Norway and Sweden	N/A	N/A	> 25 million
2015	Hurricane	09/28/15	10/15/15	Hurricane Joaquin		Caribbean Islands, Portugal	N/A	N/A	> 25 million
2015	Earthquake	04/27/15		Earthquake	Nepal		N/A	N/A	> 25 million
2015	Earthquake	09/22/15		Earthquake	Chile		N/A	N/A	> 25 million
2015	Wildfire	11/25/15	12/02/15	Pinery Bushfire	Australia	Lower Mid North, Light River, West Barossa, South Australia, Australia			$75m
2015	Wildfire	12/25/15		Wye River, Separation Creek bushfires,	Australia	Great Ocean Road region of Victoria, Australia			~$110m
2016	Hurricane	08/28/16	09/06/16	Hurricane Hermine		Dominican Republic, Cuba, The Bahamas	N/A	N/A	> 25 million
2016	Tropical Cyclone	02/16/16	02/22/16	TC Winston		South Pacific Islands	N/A	N/A	> 25 million
2016	Earthquake	02/06/16		Earthquake	Taiwan	Asia	N/A	N/A	> 25 million
2016	Earthquake	01/03/16		Kaohsiung EQ	India, Bangladesh, Myanmar	Asia	N/A	N/A	> 25 million
2016	Earthquake	02/14/16		Christchurch EQ	New Zealand	Oceania	N/A	N/A	> 25 million
2016	Earthquake	04/14/16	04/16/16	Kumamoto EQs	Japan	Asia	N/A	N/A	> 25 million
2016	Earthquake	04/16/16		Ecuador EQ	Ecuador	South America	N/A	N/A	> 25 million
2016	Tropical Cyclone	05/14/16	05/23/16	CY Roanu	Sri Lanka, india, Bangladesh, China	Asia	N/A	N/A	> 25 million
2016	Earthquake	08/24/16		Italy EQ	Italy	Europe	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/14/16	09/16/16	STY Meranti	China, Taiwan, Philippines	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	07/08/16	07/12/16	STY Nepartak	China, Taiwan	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/26/16	09/29/16	TY Megi	Taiwan, China	Asia	N/A	N/A	> 25 million
2016	Earthquake	09/10/16		Kagera EQ	Tanzania, Uganda	Africa	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/29/16	09/01/16	TY Lionrock	China, Japan, South Korea	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/19/16	09/22/16	TY Malakas	Japan, China	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/18/16	08/20/16	TS Dianmu	China, Vietnam	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	07/31/16	08/03/16	TY Nidia	China, Phillippines Vietnam	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/02/16	08/10/16	HU Earl	Belize, Mexico, Carribbean Islands	Caribbean Islands, Mexico and Central America	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/22/16	08/23/16	TS Mindulle	Japan	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/06/16	09/08/16	HU Newton	Mexico	North America (non-U.S.)	N/A	N/A	> 25 million
2016	Tropical Cyclone	10/04/16	10/07/16	STY Chaba	Japan, Korea	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	10/16/16	10/22/16	STY Haima	Phillipines, China	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	10/14/16	10/20/16	TY Sarika	Phillipines, China, Vietanm	Asia	N/A	N/A	> 25 million
2016	Earthquake	10/26/16		Central Italy EQ	Italy	Europe	N/A	N/A	> 25 million
2016	Earthquake	10/27/16		Central Italy EQ	Italy	Europe	N/A	N/A	> 25 million
2016	Earthquake	10/21/16		Tottori	Japan	Asia	N/A	N/A	> 25 million

Non U.S. List of Catastrophes For Use in Reporting Catastrophe Data in PR036 and PR100+

2016	Hurricane	09/28/16	10/10/16	Hurricane Matthew		Carribbean Islands and Eastern Canada	N/A	N/A	> 25 million
2016	Hurricane	08/28/16	09/06/16	Hurricane Hermine		Dominican Republic, Cuba, The Bahamas	N/A	N/A	> 25 million
2016	Wildfire	01/06/16		Waroona-Yarloop Bushfire	Western Australia				~$71.25m
2016	Wildfire	05/01/16	05/26/16	Canada Wildfire	Canada	Fort McMurray			$3.52b
2016	Wildfire	11/22/16	11/27/16	November 2016 Israel Fires	Israel	Various regions in Israel, mainly in Haifa, Judaean Mountains and the Sharon Plain			>$25m
2017	Earthquake	01/18/17		Earthquake	Italy	Europe	N/A	N/A	> 25 million
2017	Earthquake	01/28/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Earthquake	02/10/17		Earthquake	Philippines	Asia	N/A	N/A	> 25 million
2017	Earthquake	03/27/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Cyclone	03/28/17	04/05/17	CY Debbie	Australia	Queensland, New South Wales, New Zealand	N/A	N/A	> 25 million
2017	Earthquake	05/11/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Typhoon	07/29/17	07/31/17	TY Nesat & TS Haitang	China, Taiwan, Philippines	Asia	N/A	N/A	> 25 million
2017	Typhoon	08/07/17	08/09/17	Typhoon Noru	Japan	Asia	N/A	N/A	> 25 million
2017	Earthquake	08/08/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Typhoon	08/23/17	08/24/17	TY Hato	China	Macau, Hong Kong	N/A	N/A	> 25 million
2017	Typhoon	08/25/17	08/28/17	TY Pakhar	China	Asia	N/A	N/A	> 25 million
2017	Hurricane	08/25/17	09/02/17	Hurricane Harvey		Caribbean Islands and Central America	N/A	N/A	> 25 million
2017	Hurricane	08/30/17	09/16/17	Hurricane Irma		Caribbean Islands and Cape Verde	N/A	N/A	> 25 million
2017	Hurricane	09/05/17	09/26/17	Hurricane Jose		Caribbean Islands and Eastern Canada	N/A	N/A	> 25 million
2017	Hurricane	09/16/17	10/03/17	Hurricane Maria		Caribbean Islands, UK, Francs and Spain	N/A	N/A	> 25 million
2017	Earthquake	09/07/17		Earthquake		Mexico, Guatemala	N/A	N/A	> 25 million
2017	Earthquake	09/19/17		Earthquake	Mexico	Mexico City	>200	N/A	> 25 million
2017	Hurricane	10/04/17		Hurricane Nate		Central America, Cayman Islands, Cuba Yucatan Peninsula	N/A	N/A	> 25 million
2017	Wildfire	06/06/17		Knysna Fires	South Africa	Knysna region of the Western Cape			~$146m
2017	Wildfire	07/01/17	08/01/17	British Columnbia Wildfires	Canada	British Columbia			>$78m
2017	Wildfire	10/15/17	10/16/17	Iberian Wildfires	Portugal	Northern Portugal and Northwestern Spain			~$210m
2018	Earthquake	02/06/18		Earthquake	Taiwan				> 25 million
2018	Earthquake	02/16/18		Earthquake	Mexico				> 25 million
2018	Cyclone	02/09/18	02/20/18	CY Gita	Tonga, Fiji, Samoa, New Zealand				> 25 million
2018	Earthquake	02/26/18		Earthquake	Papua New Guinea				> 25 million
2018	Earthquake	03/05/18		Earthquake	Papua New Guinea				> 25 million
2018	Cyclone	03/17/18		CY Marcus					> 25 million
2018	Tropical Storm	05/23/18	05/27/18	Tropical Storm Mekunu	Yamen, Oman , Saudi Arabia				> 25 million
2018	Tropical Storm	06/02/18	06/07/18	Tropical Storm Ewiniar	Vietnam, China, Taiwan, Philippines and Ryukyu Islands	Guangdong Province, Jiangxi, Fujian, Zhejiang Provinces, and Hainan Island.			> 25 million
2018	Earthquake	06/18/18		Earthquake	Japan				> 25 million
2018	Super Typhoon	07/10/18	07/12/18	STY Maria	China, Taiwan, Guam and Japan	Fujian province, Yantze River Basin, Japan's Ryukyu Islands			> 25 million
2018	Tropical Storm	07/17/18	07/24/18	TS Sonh-Tinh	Vietnam, China, Loas	Japan, Russian Far East			> 25 million
2018	Tropical Storm	07/22/18	07/25/15	TS Ampil	China	Jiangsu, Zhejiang, Shandong, and Hebei			> 25 million
2018	Typhoon	07/27/18	08/03/18	TY Jongdari	Japan, China				> 25 million
2018	Earthquake	08/05/15	08/09/18	Earthquake	Indonesia				> 25 million
2018	Tropical Storm	08/09/18	08/15/18	TS Yagi	Philippines, China	Zhejiang, Anhui, Jiangsu and Shandong Provinces.			> 25 million
2018	Tropical Storm	08/13/18	08/19/18	TS Bebinca	China	Hong Kong, Guangdong and Hainan			> 25 million
2018	Typhoon	08/16/18	08/18/18	TY Rumbia	China	Shanghai, Jiangsu, Zhehiang, Anhui, Shandong and Henan			> 25 million
2018	Typhoon	08/23/18	08/25/18	TY Soulik	Japan, South Korea, China and Russia	Haenam County, South Jeolla Province			> 25 million
2018	Typhoon	09/04/18	09/05/18	RY Jebi	Japan, Mariana Islands, Taiwan, Japan, Russian Far East and Artic				> 25 million
2018	Earthquake	09/06/18		Earthquake	Japan	Hokkaido			> 25 million
2018	Super Typhoon	09/15/18	0918/18	STY Mangkhut	N. Mariana Islands, Philippines, China and Hong Kong				> 25 million

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2018	Hurricane	Leslie	09/23/18	Hurricane Leslie	Azores, Bermuda, Europe	Azores, Bermuda, Madeira, Iberian Peninsula, France			> 25 million
2018	Hurricane	10/07/18	10/16/18	Hurricane Michael	Central American, Yucatan Peninsula, Cayman Islands, Cuba, Atlantic, Canad				> 25 million
2018	Wildfire	May-18	Aug-18	Sweden Wildfires	Sweden	ranging from north of Arctic Circle to the sourthern County of Scania.			>$87m
2018	Wildfire	Jul-18		Greece Wildfires	Greece	Attica, Greece			~38.1m
2019	Cyclone	05/03/19	05/05/19	Cyclone Fani	India, Bangladesh				>500 million
2019	Earthquake	06/17/19		Earthquake	China				> 25 million
2019	Tropical Storm	08/01/19	08/08/19	Tropical Storm Wipha	China, Vietnam				> 25 million
2019	Typhoon	08/09/19	08/11/19	Typhoon Lekima	China				> 855 million
2019	Typhoon	08/15/19	08/16/19	Typhoon Krosa	Japan				>25 million
2019	Hurricane	08/31/19	09/07/19	Hurricane Dorian	Caribbean, Bahamas, Canada				>1 billion
2019	Typhoon	09/05/19	09/08/19	Typhoon Lingling	Japan, China, Korea				>5.78 billion
2019	Typhoon	09/08/19	09/09/19	Typhoon Faxai	Japan				> 7 billion
2019	Hurricane	09/19/19	09/22/19	Hurricane Humberto	Bermuda				>25+ million
2019	Hurricane	09/17/19	09/26/19	Hurricane Lorenzo	Portugal				>25+ million
2019	Earthquake	11/26/19		Earthquake	Albania				>25+ million
2019	Cyclone	11/08/19	11/11/19	Cyclone Matmo (Bulbul)	India, Bangladesh				>25+ million
2019	Typhoon	10/01/19	10/02/19	Typhoon Hagibis	Japan				> 7 billion
2019	Earthquake	12/18/19		Earthquake	Philippines				>25+ million
2019	Wildfire	Sep-19	Mar-20	Australian Bushfires	New South Wales, Queensland, Victoria, South Australia, Western Australia, Tasmania and Northern Territory				~910 million
2020	Earthquake	03/22/20		Earthquake	Croatia				>25+ million
2020	Cyclone	04/01/20	04/11/20	Cyclone Harold	Solomon Islands, Canuatu, Fiji, Tonga				> 25+ million
2020	Tropical Storm	05/31/20		Tropical Storm Amanda	El Salvador, Guatemala, Honduras				> 25+ million
2020	Tropical Storm	06/01/20	06/05/20	Tropical Storm Cristobal	Mexico, Guatemala, El Salvador				150 million
2020	Hurricane	07/25/20	07/27/20	Hurricane Hanna	Mexico				350 million
2020	Hurricane	07/28/20	08/01/20	Hurricane Isaias	Caribbean, Canada				> 3 billion
2020	Hurricane	08/22/20	08/25/20	Hurricane Laura	Caribbean				> 4 billion
2020	Typhoon	05/15/20	05/22/20	Typhoon Amphan	India, Bangladesh, Sri Lanka				15 billion
2020	Tropical Storm	06/03/20	06/04/20	Tropical Storm Nisarga	India				> 25+ million
2020	Typhoon	08/03/20	08/04/20	Typhoon Hagupit	China, Taiwan				> 100+ million
2020	Hurricane	10/05/20	10/12/20	Hurricane Delta	Jamaica, Nicaragua, Cayman Island, Yucatan Peninsula				> 2 billion
2020	Hurricane	10/24/20	10/30/20	Hurricane Zeta	Cayman Islands, Jamaica, Central America, Yucatan Peninsula, Ireland, United Kingdom				> 1.5 billion
2020	Cyclone	04/01/20	04/11/20	Cyclone Harold	Solomon Islands, Canuatu, Fiji, Tonga				> 25+ million
2020	Hurricane	10/31/20	11/14/20	Hurricane Eta	Colombia, Jamaica, Central America, Cayman Islands, Cuba, The Bahamas				> 7.9 billion
2020	Hurricane	11/14/20	11/19/20	Hurricane Iota	ABC Islands, Colombia, Jamaica, Central America				> 1.4 billion
2020	Typhoon	11/22/20	11/23/20	Typhoon Goni	Philippines, Vietnam, Cambodia, Laos				> 400+ million
2020	Typhoon	11/08/20	11/15/20	Typhoon Vamco	Philippines, Vietnam, Laos, Thailand				> 400+ million
2020	Wildfire	10/04/20		Lake Ohau Fire	New Zealand	Northwest of Lake Ohau Village			~$25m
2020	Wildfire	02/05/21		Perth Hills Wildfire	Australia	Shire of Mundaring, Shire of Chittering, Shire of Northam City of Swan			~$63m
2021	Earthquake	01/14/21	01/14/21	West Sulawesi	Indonesia				> 58.1 million
2021	Earthquake	02/13/21	02/13/21	Fukushima Prefecture Offshore	Japan				1.3 billion
2021	Tropical Cyclone	05/17/21		Toropical Cyclone Tautae	India				> 25+ million
2021	Tropical Storm	06/19/21	06/23/21	Trophical Storm Claudette	Oaxaca, Veracruz, Atlantic Canada				> 25+ million
2021	Earthquake	06/21/21	06/21/21	China	Yunnan Dali				> 25+ million
2021	Earthquake	06/21/21	06/21/21	China	Southern Qinghai				> 25+ million
2021	Hurricane	07/01/21	07/14/21	Elsa	Lesser Antilles, Greater Antilles, Venezuela, Colombia, Atlantic Canada, Greenland, Iceland				50 million
2021	Typhoon	07/16/21	07/31/21	In-fa (Fabian)	Philippines, Ryukyu Islands, Taiwan, China, North Korea				> 25+ million
2021	Trophical Storm	08/11/21	08/20/21	Fred	Lesser Antilles, Greater Antilles, Southern Quebec, The Maritimes				25 million
2021	Hurricane	08/13/21	08/21/21	Grace	Lesser Antilles, Greater Antilles, Yucatan Peninsula, Central Mexico				513 million
2021	Earthquake	08/14/21	08/14/21		Haiti				1 billion

Non U.S. List of Catastrophes For Use in Reporting Catastrophe Data in PR036 and PR100+

2021	Hurricane	08/26/21	09/04/21	Ida	Venezuela, Colombia, Jamaica, Cayman Islands, Cuba, Atlantic Canada				> 250 million
2021	Earthquake	09/07/21	09/07/21	Guerrero	Mexico				200 million
2021	Earthquake	09/16/21			China				> 25+ million
2021	Hurricane	09/12/21	09/18/21	Nicholas	Yucatan Peninsula, Tamaulipas				1.1 billion
2021	Hurricane	09/10/21	09/11/21	Larry	Canada				80 million
2021	Cyclone	10/02/21	10/04/21	Cyclone Shaheen	Oman, Iran, India, Pakistan, United Arab Emirates, Saudi Arabia, Yemen				> 25+ million
2021	Earthquake	10/07/21	10/07/21		Japan				> 25+ million
2021	Tropical Storm	10/10/21	10/14/21	Tropical Storm Kompasu	Philippines, Hong Kong, China				245 million
2021	Earthquake	10/16/21	10/16/21		Indonesia				> 25+ million
2021	Tropical Cyclone	10/24/21	11/02/21	Apollo	Italy, Malta, Tunisia, Algeria, Libya, Turkey				> 25+ million
2021	Tropical Storm	10/31/21	11/07/21	Wanda	Atlantic Canada, Bermuda, Azores				> 25+ million
2021	Earthquake	11/14/21	11/14/21		Iran				> 25+ million
2021	Tropical Cyclone	12/14/21	12/18/21	Rai (Odette)	Caroline Islands, Palau, Philippines				> 25+ million
2022	Wildfire	01/15/22	02/28/22	Corrientes	Corrientes Province, Argentina				> 25+ million
2022	Earthquake	03/16/22		Fukushima Earthquake	Japan				2.8 billion
2022	Tropical Storm	04/08/22	04/12/22	Megi	Philippines				>25+ million
2022	Typhoon	08/28/22	09/07/22	Hinnamnor	Japan, Taiwan, Philippines, South Korea, Russian, Far East				>25+ million
2022	Earthquake	09/05/22		Luding Earthquake	Luding County in Sichuan province				>25+ million
2022	Hurricane	09/14/22	09/28/22	Fiona	Leeward Islands, Puerto Rico, Dominican Republic, Lucayan Archipelago, Bermuda, Eastern Canada, Saint Pierre and Miquelon, Greenland				660 million
2022	Hurricane	09/23/22	10/02/22	Ian	Trinidad and Tobago, Venezuela, Colombia, ABC Islands, Jamaica, Cayman Islands, Cuba				> 110 billion
2022	Hurricane	10/07/22	10/10/22	Julia	Trinidad and Tobago, Venezuela, ABC islands, Colombia, Nicaragua, El Salvador, Honduras, Guatemala, Panama, Mexico				>400 million
2023	Wildfire	02/01/23	03/06/23		Chile				>25 million
2023	Earthquake	02/06/23	02/20/23		Turkey, Syria				> 25 million
2023	Cyclone	02/12/23	02/17/23	Gabrielle	New Zealand				> 25 million
2023	Typhoon	05/23/23	05/31/23	Mawar	Guam				> 25 million
2023	Earthquake	06/16/23		France Earthquake	France				> 25 million
2023	Wildfire	08/15/23	09/21/23	Kelowna Wildfire	Canada				> 25 million
2023	Wildfire	08/24/23	09/30/23	Bush Creek Wildfire	Canada				> 25 million
2023	Earthquake	09/08/23			Morocco				> 25 million
2023	Typhoon	07/26/23	08/01/23	Doksuri	Philippines, Taiwan, China, Vietnam				> 25 million
2023	Typhoon	08/26/23	09/03/23	Saola	Eastern Asoa				> 25 million
2023	Typhoon	09/03/23	09/07/23	Haikui	Philippines, Taiwan, China				> 25 million
2023	Typhoon	09/27/23	10/11/23	Koinu	China, Japan, Philippines				>25 million
2023	Hurricane	10/22/23	10/25/23	Otis	Southern Mexico, primarily Guerrero				> 25 million
2023	Earthquake	12/18/23		Jishishan Earthquake	China				> 25 million
2024	Earthquake	01/01/24		Noto Earthquake	Ishikawa Japan				>25 million
2024	Severe Convective Storm	01/20/24	01/22/24	Windstorm Isha	Belgium, Switzerland, Germany, Denmark France, Great Britain, Ireland, Netherlands, Norway				>25 million
2024	Severe Convective Storm	01/23/24	01/24/24	Windstorm Jocelyn	Great Britain, Ireland, Demark, Germany, Netherlands, Norway, Poland				>25 million
2024	Severe Convective Storm	01/31/24	02/01/24	Windstorm Ingunn	Norway, Great Britain, Ireland, Sweden				>25 million
2024	Wildfire	02/01/24	03/22/24	Chile Wildfires	Chile				>25 million
2024	Severe Convective Storm	02/12/24	02/23/24	Windstorm Louis	Western & Northern Europe				>25 million
2024	Severe Convective Storm	02/14/24		Victoria Valentine's Day SCS	Australia				>25 million
2024	Severe Convective Storm	02/21/24	02/23/24	Windstorm Nelson	France, Potgugal, Spain, Great Britain				>25 million
2024	Severe Convective Storm	03/30/24	04/03/24	Easter Weekend SCS	Czech Republic, France, Italy, Poland				>25 million
2024	Earthquake	04/03/24		Hualien Earthquake	Taiwan				>25 million
2024	Severe Convective Storm	04/03/24	04/08/24		Australia				>25 million
2024	Severe Convective Storm	04/04/24	04/07/24	Windstorm Olivia	Ireland, Great Britain, France, Spain, Portugal, Netherlands				>25 million
2024	Severe Convective Storm	04/16/24		Hyogo Hailstorm	Japan				>25 million
2024	Severe Convective Storm	05/14/24	05/17/24		Western & Central Europe				>25 million
2024	Severe Convective Storm	06/06/24	06/10/24	Storm Tina	Austria, Demark, Hungary, Switzerland, Slovakia, Romania				>25 million
2024	Severe Convective Storm	06/17/24	06/20/24	Storm Wibke	Denmark, France, Czech Republic, Poland, Switzerland, Beliguim				>25 million
2024	Severe Convective Storm	06/10/24	06/16/24		Chile				>25 million

Non U.S. List of Catastrophes For Use in Reporting Catastrophe Data in PR036 and PR100+

2024	Tropical Storm	06/19/24	06/20/24	Tropical Storm Alberto	Mexico, Yucatan Peninsula				>25 million
2024	Severe Convective Storm	06/25/24	06/28/24		Central Europe				>25 million
2024	Severe Convective Storm	06/28/24	06/30/24	Storm Annelie	France, Italy, Switzerland				>25 million
2024	Hurricane	07/01/24	07/12/24	Hurricane Beryl	Barbados, Windward Islands, Trinidad and Tobago, Venezuela, Hispaniola, Jamaica, Cayman Islands, Yucatan Peninsula, Belize, Eastern Canada				>25 million
2024	Typhoon	07/23/24	07/28/24	Typhoon Gaemi	Taiwan, China, Philippines, Yaeyama Islands, Indonesia, Vietnam, North Korea				>25 million
2024	Hurricane	08/03/24	08/14/24	Hurricane Debby	Caribbean, Quebec, Atlantic Canada				>25 million
2024	Hurricane	08/13/24	08/19/24	Hurricane Ernesto	Bermuda, Puerto Rico, U.S. Virgin Islands, Antigua and Barbuda, Guadeloupe				>25 million
2024	Wildfire	08/23/24	09/06/24	Brazil/Sao Paulo Fires					
2024	Typhoon	08/28/24	08/31/24	Typhoon Shanshan	Japan, South Korea				>25 million
2024	Typhoon	09/01/24	09/12/24	Typhoon Yagi	China, Phillippines, Vietnam, Loas, Thailand, Myanmar, Hong Kong, Macau				>25 million
2024	Hurricane	09/09/24	09/14/24	Hurricane Francine	Mexico				>25 million
2024	Wildfire	09/15/24	09/20/24	Portugal Wildfires	Central and Northern Portugal				>25 million
2024	Typhoon	09/15/24	09/17/24	Typhoon Bebinca	China, Philippines, NorthMariana Islands, Ryukyu Islands				>25 million
2024	Hurricane	09/22/24	09/28/24	Hurricane John	Mexico				>25 million
2024	Hurricane	09/24/24	09/29/24	Hurricane Helene	Yucatan Peninsula, Honduras, Cayman Islands, Cuba				>25 million
2024	Typhoon	09/26/24	10/04/24	Typhoon Krathon (Julian)	Philippines, Taiwan				>25 million
2024	Hurricane	10/05/24	10/12/24	Hurricane Milton	Mexico, Yucatan Peninsula, Western Cuba, The Bahamas				>25 million
2024	Tropical Storm	10/25/24	10/27/24	Tropical Storm Trami	Philippines, Vietnam				>25 million
2024	Huricane	11/04/24	11/10/24	Huricane Rafeal	Cuba, Panama, Coast Rica, Columbia				>25 million
2024	Typhoon	11/01/24	11/07/24	Typhoon Kong-rey	Philippines, China, South Korea, Japan, Taiwan				>25 million
2024	Typhoon	11/09/24	11/20/24	Typhoon Man-yi	Philippines, Guam, Northern Mariana Islands				>25 million

U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Type of Event	Name	Date	Location	Overall losses when occurred
Convective Storm	Thunderstorms, tornadoes, hail	3/25/2015 - 3/26/2015	OK, AR, MO KS	300-600m
Convective Storm	Thunderstorms, hail, flood	3/31/2015 - 4/1/2015	AR, TX, AL, OK, GA, TN, MS	100-600m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/2/2015 - 4/3/2015	KS, KY, MO	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/7/2015 - 4/10/2015	MO, IL, NC, IN, OH, KY, TX, IA, AR, MI, WV, WI, PA, OK, KS, TN	1-3b
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/16/2015 - 4/17/2015	TX, OK, KS	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/18/2015 - 4/21/2015	TX, AR, GA, PA, SC, AL, TN, KS, FL, OK, MS	600m-1b
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/24/2015 - 4/28/2015	TX, LA, KY, AL, GA, FL, MS	600m-1b
Convective Storm	Thunderstorms, hail, tornadoes, flood	5/3/2015 - 5/4/2015	MN, NE, IA, WI, KS	100-300m
Convective Storm	Tornado outbreak (122), hail, strong wind	5/6/2015 - 5/13/2015	OK, TX, CO, NE, SD, KS	600m-1b
Convective Storm	Thunderstorms, hail, tornadoes, flood	5/15/2015 - 5/17/2015	TX, OK, MO, CO, KS, NE	100-300M
Convective Storm	Thunderstorms, hail, tornadoes, flood	5/23/2015 - 5/28/2015	TX, OK, KS, LA, CO, AR, GA, OH, SC	1.46b
Convective Storm	Thunderstorms, hail, tornadoes, flood	5/28/2015 - 5/30/2015	TX, OK, CO, KS	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	6/3/2015 - 6/8/2015	CO, IL	300-600m
Convective Storm	Thunderstorms, hail, tornado, flood	6/10/2015 - 6/11/2015	IL	25-100m
Convective Storm	Thunderstorms, hail, tornadoes, flood	6/21/2015 - 6/25/2015	CO, IL, NJ, MD, IA, PA, SD, MI, VA, WI, CT, NY, DE, ND	600m-1b
Convective Storm	Thunderstorms, hail, tornadoes, flood	6/29/2015 - 6/30/2015	MN, PA	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood, land	7/12/2015 - 7/14/2015	IL, MN, IN, KY, OH, TN, WI	300-600m
Convective Storm	Thunderstorms, hail, tornadoes, flood	7/17/2015 - 7/20/2015	MN, IN	25-100m
Convective Storm	Thunderstorms, hail, tornadoes, flood	8/2/2015 - 8/4/2015	IL, MI, MA, WI, RI, ME, NY	600m-1b
Convective Storm	Thunderstorms, hail	10/3/2015 - 10/4/2015	NM	25-100m
Convective Storm	Thunderstorms, hail	10/5/2015 - 10/7/2015	TX	25-100m
Convective Storm	Thunderstorms, hail, flood	10/20/2015 - 10/23/2015	TX, NM	100-300m
Convective Storm	Thunderstorms, hail, flood	10/29/2015 - 10/31/2015	TX, LA	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	12/23/2015 - 12/24/2015	GA, TN, IN, AL, MS, IL, AR	100-300m
Convective Storm	Thunderstorms, tornadoes, flood, blizzards	12/26/2015 - 12/28/2015	TX, MO, IL, OK, GA, IN	600m-1b
Convective Storm	Thunderstorm, flood, landslides	1/31/2016 - 2/1/2016	CA	25-100m
Convective Storm	Thunderstorms, wind	2/19/2016 - 2/20/2016	MI, IL	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	2/22/2016-2/25/2016	TX, NC, LA, FL, GA, VA, NY, SC, PA, MA, AL, CT, MS, DC, DE	600m-1b
Convective Storm	Thunderstorms, hail, flood	3/5/2016 - 3/11/2016	LA, TX, CA, MS, AR, TN, OK	300-600m
Convective Storm	Thunderstorms, tornadoes, hail	3/13/2016 - 3/14/2016	SC, AR, NC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	3/13/2016 - 3/15/2016	IL, WA, CA	100-300m
Convective Storm	Thunderstorms, hail	3/17/2016 - 3/18/2016	TX, LA, MS, AR, FL, AL	600m-1b
Convective Storm	Thunderstorms, hail	3/27/2016	IN	25-100m
Convective Storm	Thunderstorms, hail, tornadoes, flood	3/30/2016 - 4/1/2016	TX, OK, MS, AR, AL, LA, KS	100-300m
Convective Storm	Thunderstorms, hail	4/2/2016 - 4/3/2016	IN, OH, NJ, IL, PA, MD, VA, NY, DE, DC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	4/25/2016 - 4/28/2016	TX, KS, MO, IN, WV, OK, IL, NC, MS	600m-1b
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/29/2016 - 5/3/2016	TX, AR, VA, IN, NC, MD, OK, GA, MO, IL, WV	1-3b
Convective Storm	Thunderstorms, tornadoes, hail	5/7/2016 - 5/10/2016	NE, KY, TX, OK, CO, TN, KS	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	5/11/2016 - 5/12/2016	MO, TX, NE, IL	600m-1b
Convective Storm	Thunderstorms, hail	5/16/2016 - 5/19/2016	TX	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	5/21/2016 - 5/28/2016	TX, MT, KS, MO, CO	600m-1b
Convective Storm	Thunderstorms, tornadoes, flood	5/29/2016 - 6/2/2016	TX	100-300m
Convective Storm	Thunderstorms, hail	6/6/2016 - 6/7/2016	CO	100-300m
Convective Storm	Thunderstorms, hail	6/16/2016 - 6/18/2016	VA, GA, AL, SC	100-300m
Convective Storm	Thunderstorms, hail	6/16/2016 - 6/18/2016	ND, SD, MN	100-300m
Convective Storm	Thunderstorms, hail, flood	7/5/2016 - 7/7/2016	MN, TN, KY, WI	100-300m
Convective Storm	Thunderstorms, hail	7/7/2016 - 7/9/2016	CO, MI, NC, TN	100-300m
Convective Storm	Thunderstorms, hail, tornadoes	7/13/2016 - 7/15/2016	CO, OK, IL, AR, MO, KS	300-600m
Convective Storm	Thunderstorms, hail	7/20/2016 - 7/21/2016	MN	25-100m
Convective Storm	Thunderstorms, hail, flood	7/30/2016 - 8/1/2016	MD, NJ, NY, PA, VA	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	8/24/2016 - 8/25/2016	IN, OH	25-100m
Convective Storm	Thunderstorms, hail, tornadoes, flood	9/19/2016 - 9/23/2016	WI, MN, IA	100-300m

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U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Convective Storm	Thunderstorms, tornadoes	11/28/2016 - 12/1/2016	TN, AL, GA, SC, MS, LA, NC	100-300m
Convective Storm	Hailstorm	3/23/2016	TX	1-3b
Convective Storm	Hailstorm	4/10/2016 - 4/15/2016	TX, FL	1-3b
Convective Storm	Hailstorm	7/28/2016 - 7/29/2016	CO, WY	1-3b
Convective Storm	Hailstorm	11/4/2016 - 11/6/2016	TX, NM	300-600m
Convective Storm	Thunderstorms, tornadoes	1/1/2017 - 1/3/2017	GA, TX, AL, LA, MS	100-100m
Convective Storm	Tornadoes	1/18/2017 - 1/23/2017	CA, GA, MS, TX, FL, AL, LA, SC	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	2/7/2017	LA, AL, FL, MS	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	2/19/2017 - 2/20/2017	TX	100-300m
Convective Storm	Windstorm, flood	2/19/2017 - 2/21/2017	CA	25-100m
Convective Storm	Thunderstorms, tornadoes, hail	2/25/2017	VA, PA	100m-300m
Convective Storm	Thunderstorms, tornadoes, hail	2/28/2017 - 3/2/2017	IL, MO, IN, KY, OH, TN, GA, IA, AR, NC, VA, AL, SC, WV, MD, MI	1-3b
Convective Storm	Thunderstorms, tornadoes, hail	3/6/2017 - 3/9/2017	MO, MI, NY, MN, IA, OH, IL, WI, AR, OK, NE	1-3b
Convective Storm	Thunderstorms, hail	3/21/2017 - 3/22/2017	SC, TN, GA, NC	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	3/28/2017 - 3/31/2017	TX, VA, NC, OK	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/2/2017 - 4/3/2017	TX, GA, LA, MS, AL, SC, FL, AR, NC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	4/4/2017 - 4/6/2017	AL, KY, GA, VA, SC, TX, MO, NC, TN,FL, MD, OK, AR, KS, DC	600m-1b
Convective Storm	Thunderstorms, tornadoes	4/10/2017 - 4/11/2017	TX, IL, IN	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/21/2017 - 4/25/2017	TX, TN, OK, NC, VA, SC	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	4/26/2017	TX	25-100m
Convective Storm	Thunderstorms, tornadoes, hail	5/3/2017 - 5/5/2017	TX, LA, GA, VA, NC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	5/15/2017 - 5/18/2017	IL, WI, MN, OK, IA, NY	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	5/27/2017 - 5/28/2017	MO, TN, VA, OK, KY	300-600m
Convective Storm	Thunderstorms, hail	6/2/2017 - 6/4/2017	TX	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	6/12/2017 - 6/14/2017	TX, WY, Midwest	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	6/16/2017 - 6/19/2017	NE, IA, KS, MO, PA, IL, VA, NY	300-600m
Convective Storm	Thunderstorms, tornadoes, hail	6/27/2017 - 6/29/2017	NE, IA, IL	1-3b
Convective Storm	Thunderstorms, hail, tornadoes, flood	7/11/2017 - 7/12/2017	IL, MN	100-300m
Convective Storm	Thunderstorms, hail	7/21/2017 - 7/23/2017	IL, KS, MO	300-600m
Convective Storm	Thunderstorms, hail, tornadoes, flood	8/5/2017 - 8/8/2017	TX, OK, LA, KS, MO	100-300m
Convective Storm	Thunderstorms, hail, flood	10/14/2017 - 10/15/2017	IL, MO, KS	100-300m
Convective Storm	Thunderstorms, hail	11/5/2017 - 11/6/2017	OH, MO	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	3/26/2017 - 3/28/2017	TX, OK, AL, TN, KY, MS	1-3b
Convective Storm	Thunderstorms, tornadoes, hail	5/8/2017 - 5/11/2017	CO, NM, OK, TX, MO	1-3b
Convective Storm	Hailstorm	6/11/2017	MN, WI	1-3b
Convective Storm		1/8/2018 - 1/10/2018	CA	<1,000m
Convective Storm		2/24/2018 - 2/26/2018	KY, TN, MO, AR	<1,000m
Convective Storm		3/18/2018 - 3/21/2018	TX, LA, AL, MS, GA, FL, SC	>1,000m
Convective Storm		4/6/2018 - 4/7/2018	TX, LA, MS, OK	<1,000m
Convective Storm		4/13/2018 - 4/17/2018	TX, OK, MO, AR, LA, MS, IA, KS, VA, NC, SC, GA, FL	<1,000m
Convective Storm		4/28/2018 - 5/5/2018	KS, MO, IA, IL	>1,000m
Convective Storm		5/12/2018 - 5/16/2018	Northeast, Midwest, Southern	>1,000m
Convective Storm		6/3/2018 - 6/6/2018	Southwest	<1,000m
Convective Storm		6/12/2018 - 6/13/2018	Midwest	<1,000m
Convective Storm		6/18/2018 - 6/20/2018	Midwest	>1,000m
Convective Storm		6/24/2018 - 6/26/2018	Midwest	<1,000m
Convective Storm		6/29/2018 - 7/1/2018	Midwest	<1,000m
Convective Storm		7/19/2018 - 7/22/2018	Midwest, Southern	>1,000m
Convective Storm		7/21/2018 - 7/26/2018	Northeast	<1,000m
Convective Storm		7/26/218 - 7/29/2018	Midwest, Southern	<1,000m
Convective Storm		7/30/2018 - 7/31/2018	Southwest	<1,000m
Convective Storm		8/6/2018 - 8/7/2018	Midwest	<1,000m
Convective Storm		9/20/2018 - 9/21/2018	Midwest	<1,000m

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U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Convective Storm		10/31/2018 - 11/1/2018	Midwest	>1,000m
Convective Storm		11/14/2018 - 11/16/2018	Northeast	<1,000m
Convective Storm		2/1/2019 - 2/3/2019	CA	<100m
Convective Storm		2/23/2019 - 2/26/2019	Midwest, Northeastern	<1,000m
Convective Storm		2/26/2019 - 2/28/2019	CA	<100m
Convective Storm		3/3/2019 - 3/4/2019	Southern	<1,000m
Convective Storm		3/23/2019 - 3/25/2019	Southern	>1,000m
Convective Storm		3/26/2019 - 3/27/2019	FL	<1,000m
Convective Storm		4/5/2019 - 4/7/2019	Southern	<1,000m
Convective Storm		4/12/2019 - 4/15/2019	Midwest, Southeast	<1,000m
Convective Storm		4/17/2019 - 4/20/2019	Southern	<1,000m
Convective Storm		4/23/2019 - 4/25/2019	Southern	<1,000m
Convective Storm		4/30/2019 - 5/2/2019	Midwest, Southern	<1,000m
Convective Storm		5/7/2019 - 5/10/2019	Southern	<1,000m
Convective Storm		5/13/2019	NC	<1,000m
Convective Storm		5/16/2019 - 5/17/2019	Midwest	<1,000m
Convective Storm		5/17/2019 - 5/18/2019	TX	<1,000m
Convective Storm		5/20/2019 - 5/22/2019	Midwest, Southern	<1,000m
Convective Storm		5/24/2019 - 5/25/2019	Southern	<100m
Convective Storm		5/26/2019 - 5/29/2019	All regions	>1,000m
Convective Storm		6/4/2019 - 6/6/2019	Midwest	<1,000m
Convective Storm		6/9/2019 - 6/10/2019	Southern	<1,000m
Convective Storm		6/15/2019 - 6/16/2019	IN	<100m
Convective Storm		6/16/2019 - 6/17/2019	TX	<1,000m
Convective Storm		6/23/2019 - 6/24/2019	TX	<1,000m
Convective Storm		6/29/2019 - 6/30/2019	IL, NY	<100m
Convective Storm		7/4/2019 - 7/5/2019	CO	<1,000m
Convective Storm		7/7/2019 - 7/8/2019	Southern	<1,000m
Convective Storm		7/17/2019 - 7/18/2019	MN, WY	<1,000m
Convective Storm		7/19/2019 - 7/23/2019	Northeast, Midwest	<1,000m
Convective Storm		7/26/2019 - 7/27/2019	MN	<1,000m
Convective Storm		8/4/2019 - 8/5/2019	MN, WI	<1,000m
Convective Storm		8/6/2019	ND, SD	<1,000m
Convective Storm		8/10/2019 - 8/11/2019	MT	<1,000m
Convective Storm		8/14/2019 - 8/18/2019	Midwest	<1,000m
Convective Storm		8/25/2019 - 8/26/2019	Midwest, South	<1,000m
Convective Storm		9/10/2019 - 9/11/2019	Midwest	<1,000m
Convective Storm		9/27/2019 - 9/28/2019	Midwest	<100m
Convective Storm		10/16/2019 - 10/17/2019	Northeast	<1,000m
Convective Storm		10/20/2019 - 10/21/2019	Southern	>1,000m
Convective Storm		10/26/2019 - 10/27/2019	CA	<100m
Convective Storm		10/31/2019 - 11/1/2019	Northeast, South	<1,000m
Convective Storm		11/19/2019 - 11/21/2019	AZ	<100m
Convective Storm		11/26/2019 - 11/28/2019	Midwest	<1,000m
Convective Storm		1/10/2020 - 1/12/2020	Midwest, Southern	<1,000m
Convective Storm		2/5/2020 - 2/8/2020	South, Northeast	<1,000m
Convective Storm		2/8/2020 - 2/11/2020	AZ, CA	<100m
Convective Storm		3/2/2020 - 3/4/2020	Midwest, Southern	>1,000m
Convective Storm		3/17/2020 - 3/20/2020	Midwest, Southern	<1,000m
Convective Storm		3/27/2020 - 3/30/2020	Midwest. Southern	>1,000m
Convective Storm		4/7/2020 - 4/9/2020	Northeast, Midwest	>1,000m
Convective Storm		4/10/2020 - 4/14/2020	Northeast, Southern	>1,000m
Convective Storm		4/18/2020 - 4/20/2020	Southern	<1,000m

U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Convective Storm		4/21/2020 - 4/24/2020	Southern	>1,000m
Convective Storm		4/24/2020 - 4/26/2020	Southern	<1,000m
Convective Storm		4/27/2020 - 4/30/2020	South, Northeast	<1,000m
Convective Storm		5/2/2020 - 5/3/2020	Southern	<1,000m
Convective Storm		5/4/2020 - 5/5/2020	Southern	>1,000m
Convective Storm		5/7/2020 - 5/8/2020	Southern	<1,000m
Convective Storm		5/13/2020 - 5/15/2020	Midwest, Northeast	<1,000m
Convective Storm		5/16/2020 - 5/21/2020	South, Northeast	<1,000m
Convective Storm		5/20/2020 - 5/24/2020	Southern	>1,000m
Convective Storm		5/25/2020 - 5/26/2020	TX	<100m
Convective Storm		5/27/2020 - 5/28/2020	TX	>1,000m
Convective Storm		6/2/2020 - 6/3/2020	Northeast	<1,000m
Convective Storm		6/4/2020	SD	<1,000m
Convective Storm		6/5/2020 - 6/11/2020	Midwest	<1,000m
Convective Storm		6/6/2020 - 6/9/2020	Southern	<1,000m
Convective Storm		6/19/2020 - 6/21/2020	TX	<1,000m
Convective Storm		7/5/2020 - 7/7/2020	Northeast	<1,000m
Convective Storm		7/10/2020 - 7/12/2020	Midwest	<1,000m
Convective Storm		7/17/2020 - 7/19/2020	Midwest	<1,000m
Convective Storm		7/25/2020 - 7/27/2020	TX	<1,000m
Convective Storm		8/4/2020 - 8/5/2020	CO	<1,000m
Convective Storm		8/8/2020 - 8/11/2020	Midwest	>1,000m
Convective Storm		8/13/2020 - 8/17/2020	Midwest, Southern	<1,000m
Convective Storm		8/26/2020 - 8/28/2020	Northeast	<1,000m
Convective Storm		8/29/2020 - 8/30/2020	TX	<100m
Convective Storm		9/5/2020 - 9/6/2020	IA, MN	<1,000m
Convective Storm		9/7/2020 - 9/9/2020	ID, UT	<1,000m
Convective Storm		10/7/2020 - 10/8/2020	Northeast	<1,000m
Convective Storm		10/25/2020 - 10/28/2020	CA, OK	<1,000m
Convective Storm		11/10/2020 - 11/12/2020	Midwest, Southern	<1,000m
Convective Storm		11/15/2020 - 11/16/2020	Northeast	<1,000m
Convective Storm		11/30/2020 - 12/1/2020	Northeast	<100m
Convective Storm		1/11/2021 - 1/13/2021	Western	<1,000m
Convective Storm		1/17/2021 - 1/20/2021	CA	<1,000m
Convective Storm		1/25/2021 - 1/26/2021	Southern	<100m
Convective Storm		1/24/2021 - 1/29/2021	AZ, CA	<1,000m
Convective Storm		2/25/2021 - 2/26/2021	TX	<1,000m
Convective Storm		3/9/2021 - 3/11/2021	MN	<100m
Convective Storm		3/9/2021 - 3/11/2021	Midwest, Southern	<1,000m
Convective Storm		3/22/2021 - 3/23/2021	TX	<1,000m
Convective Storm		3/24/2021 - 3/26/2021	Northeast, Midwest	>1,000m
Convective Storm		3/27/2021 - 3/29/2021	Northeast, Midwest, Southern	<1,000m
Convective Storm		4/6/2021 - 4/8/2021	TX	<1,000m
Convective Storm		4/9/2021 - 4/11/2021	Southern	<1,000m
Convective Storm		4/9/2021 - 4/14/2021	LA, TX	<1,000m
Convective Storm		4/15/2021 - 4/16/2021	TX	>1,000m
Convective Storm		4/27/2021 - 5/2/2021	Southern, Northeast	>1,000m
Convective Storm		5/3/2021 - 5/4/2021	Southern, Northeast	<1,000m
Convective Storm		5/7/2021 - 5/11/2021	Southern, Midwest	<1,000m
Convective Storm		5/14/2021 - 5/19/2021	Southern, Midwest	<1,000m
Convective Storm		5/26/2021 - 5/28/2021	South, Northeast	<1,000m
Convective Storm		5/25/2021 - 5/26/2021	Northeast	<1,000m
Convective Storm		5/29/2021 - 5/31/2021	Midwest	<1,000m

U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Convective Storm		6/7/2021 - 6/9/2021	TX	<100m
Convective Storm		6/11/2021 - 6/14/2021	Midwest, Northeast	<1,000m
Convective Storm		6/17/2021 - 6/20/2021	Midwest, Northeast	>1,000m
Convective Storm		6/24/2021 - 7/1/2021	Midwest	<1,000m
Convective Storm		7/8/2021 - 7/10/2021	Midwest	<1,000m
Convective Storm		7/9/2021 - 7/11/2021	Southern	<1,000m
Convective Storm		7/22/2021 - 7/25/2021	AZ, NM	<1,000m
Convective Storm		7/24/2021	MI	<100m
Convective Storm		7/26/2021 - 7/27/2021	MN, WI	<1,000m
Convective Storm		7/28/2021 - 7/29/2021	Midwest, Northeast	<1,000m
Convective Storm		8/1/2021	TX	<100m
Convective Storm		8/7/2021 -8/9/2021	Midwest	<100m
Convective Storm		8/10/2021 - 8/13/2021	Midwest, Northeast	<1,000m
Convective Storm		8/10/2021 - 8/16/2021	AZ	<1,000m
Convective Storm		8/17/2021 - 8/19/2021	Western	<1,000m
Convective Storm		8/21/2021 - 8/22/2021	TN	<100m
Convective Storm		8/26/2021 - 8/28/2021	Midwest	<1,000m
Convective Storm		9/6/2021 - 9/7/2021	Midwest	<1,000m
Convective Storm		9/15/2021 - 9/17/2021	Midwest	<100m
Convective Storm		9/24/2021 - 9/29/2021	Southern	<100m
Convective Storm		9/30/2021 - 10/2/2021	TX	<100m
Convective Storm		10/4/2021 - 10/7/2021	Southern	<1,000m
Convective Storm		10/10/2021 - 10/11/2021	Southern	<1,000m
Convective Storm		10/10/2021 - 10/12/2021	Western	<100m
Convective Storm		10/24/2021 - 10/28/2021	Western, Southern	<1,000m
Convective Storm		10/24/2021 - 10/25/2021	Midwest	<100m
Convective Storm		10/24/2021 - 10/25/2021	Northeast	<100m
Convective Storm		11/11/2021 - 11/13/2021	WA	<100m
Convective Storm		11/14/2021 - 11/16/2021	TX	<100m
Convective Storm		11/10/2021 - 11/11/2021	TX	<100m
Convective Storm		12/10/2021 - 12/11/2021	South, Eastern, Central	>1,000m
Convective Storm		12/13/2021 - 12/16/2021	TX	>1,000m
Convective Storm		12/17/2021 - 12/18/2021	TX	<100m
Convective Storm		12/21/2021	FL	<100m
Convective Storm		1/21/2022 - 1/22/2022	GA, SC	>25m
Convective Storm		2/21/2022 - 2/22/2022	MO, KY	>500m
Convective Storm		3/5/2022 - 3/7/2022	MO, IA, IL, WI, IN	>250m
Convective Storm		3/11/2022 - 3/13/2022	FL, GA	>50m
Convective Storm		3/14/2022 - 3/16/2022	TX, FL, GA, SC	>100m
Convective Storm	New Orleans Tornado	3/21/2022 - 3/23/2022	TX, LA, MS, AL, OK	>250m
Convective Storm		3/29/2022 - 3/31/2022	TX, OK, AR, LA, AL, MS, FL, TN	>500m
Convective Storm		4/2/2022 - 4/4/2022	MS, LA, AR, TX, OK	>50m
Convective Storm		4/3/2022 - 4/7/2022	MS, AL, GA, FL, SC, NC, TN	>500m
Convective Storm		4/10/2022 - 4/14/2022	MO, AR, TX, LA, IA, NE, KS, MS, AL, TN, KY, MN, WI	>1b
Convective Storm		4/15/2022 - 4/17/2022	AR, MS, LA, FL, AL	>250m
Convective Storm		4/21/2022 - 4/24/2022	TX, OK, KS, NE, SD, IA	>250m
Convective Storm	Andover Tornado	4/26/2022 - 4/30/2022	NC, VA, KS, MO, NE, OK	>100m
Convective Storm	Tornadoes, Hail	5/1/2022 - 5/3/2022	TX, OK, AR, KS, KY, OH,	>500m
Convective Storm	Tornadoes, Hail	5/4/2022 - 5/6/2022	TX, OK, MS, FL, GA, SC, NC, VA, TN, KY	>250m
Convective Storm	Thunderstorms, Hail	5/9/2022 - 5/10/2022	MN, WI, TX	>1b
Convective Storm	Upper Midwest Derecho	5/11/2022 - 5/12/2022	ND, SD, MN, IA, NE	>1b
Convective Storm	Tornadoes, Hail	5/13/2022 - 5/16/2022	IL, MO, TX, OK, KA, NE, NC, NY, NH, CO	>250m
Convective Storm	Tornadoes, Hail	5/17/2022 - 5/19/2022	KS, NE, OK, MO, IL, KY	>25m

U.S. List of Catastrophes for Use in Reporting catastrophe Data in PR036 and PR100+

Convective Storm		5/19/2022 - 5/22/2022	MN, WI, MI, IN, OH, AR, TX	>1b
Convective Storm	Tornadoes, Hail	5/23/2022 - 5/25/2022	TX, NC, SC, MS, IL	>50m
Convective Storm	Tornadom, Hail	5/29/2022	NE, SD, MN	>25m
Convective Storm	Tornadoes, Hail	5/30/2022 - 6/2/2022	MN, IA, NE, SD, KS, OK, TX, VA, OH	>250m
Convective Storm		6/1/2022 - 6/3/2022	NM, CO, TX	>25m
Convective Storm	Tornadoes, Hail	6/4/2022 - 6/8/2022	KS, NE, MO, IN, OH, OK, AR, TX	>1b
Convective Storm	Tornadoes, Hail	6/11/2022 - 6/17/2022	KS, NE, SD, MN, OH, KY, MI, IN, WI, VA, NC, SC	>1b
Convective Storm	Tornadoes, Hail	6/22/2022 - 6/23/2022	OH, KS, MN, KY, ND, SD	>25m
Convective Storm	South Dakota Derecho	7/1/2022 - 7/7/2022		>250m
Convective Storm		7/7/2022 - 7/13/2022	MT, ND, SD, MN, NE, IA	>250m
Convective Storm		7/21/2022 - 7/25/2022	ND, SD, NE, KS, IL, IN, OH, WI, IA, MN, MI	>500m
Convective Storm		8/1/2022 - 8/4/2022	WV, PA, IL, WI, MN, MI, MD	>25m
Convective Storm		8/11/2022 - 8/12/2022	WA, OR, ID, MT	>25m
Convective Storm		8/20/2022 - 8/21/2022	IA, IL, IN, OH, MO	>250m
Convective Storm		8/27/2022 - 8/29/2022	MN, IA, IL, MI	>25m
Convective Storm		8/28/2022 - 9/6/2022	TX, OK, KS	>100m
Convective Storm		9/18/2022 - 9/21/2022	IL, MO, IA, WI, MI	>250m
Convective Storm		10/1/2022 - 10/4/2022	CO, UT, AZ	>25m
Convective Storm		10/15/2022 - 10/26/2022	OK, AR, NE, ND, MN	>100m
Convective Storm		10/24/2022 - 10/25/2022	TX	>100m
Convective Storm	Southern Plains Tornadoes	11/4/2022 - 11/5/2022	TX, LA, OK, AR	>100m
Convective Storm		11/4/2022 - 11/5/2022	WI, IA, IL	>25m
Convective Storm		11/11/2022	TX, VA	>25m
Convective Storm	Western PA Hail	11/27/2022	PA	>25m
Convective Storm		11/29/2022 - 11/30/2022	LA, MS, AL, GA, FL, AR, TN, KY	>25m
Convective Storm	Mid-December Tornadoes	12/13/2022 - 12/14/2022	TX, OK, LA, AR, MS, AL, FL, GA	>100m
Convective Storm	Selma Tornado	1/12/2023	MS, AL, GA, TN, KY, NC, SC	>250m
Convective Storm	Houston Tornado	1/24/2023	TX, LA	>100m
Convective Storm		2/7/2023	TX, LA, MS	>100m
Convective Storm		2/15/2023 - 2/17/2023	OK, AR, MO, MS, TN	>100m
Convective Storm	Southern Plains Derecho	2/26/2023 - 2/28/2023	TX, OK, KS, MO, IL, IN, OH	>250m
Convective Storm		3/1/2023 - 3/3/2023	TX, AR, OK, LA, KY, IN, OH	>1b
Convective Storm	Dallas Hail	3/16/2023 - 3/17/2023	TX, OK	>250m
Convective Storm	Mississippi Tornado	3/23/2023 - 3/28/2023	TX, OK, MO, IL, AR, TN, MS, AL, GA, LA	>1b
Convective Storm		3/30/2023 - 4/1/2023	NE, IA, MO, IL, WI, AR, TN, KY, IN, OH, MI, NJ, MD	>1b
Convective Storm		4/2/2023	TX, LA, MS	>25m
Convective Storm		4/3/2023 - 4/5/2023	IA, WI, IL, MO, KY, IN, OH, TX	>1b
Convective Storm	Missouri Tornadoes	4/14/2023 - 4/16/2023	KS, NE, MO, IL, AR, TX, LA	>250m
Convective Storm	Oklahoma Tornadoes	4/18/2023 - 4/22/2023	KS, NE, IA, WI, IL, OK, TX	>1b
Convective Storm		4/23/2023 - 4/27/2023	TX, FL	>500m
Convective Storm		4/28/2023 - 5/1/2023	TX	>500m
Convective Storm		5/2/2023 -5/9/2023	TX, NE, MO, IL, IA, IL, KY, KS	>1b
Convective Storm		5/9/2023 - 5/16/2023	CO, KS, TX, OK, LA, NE, IA, KY	>1b
Convective Storm		5/17/2023 - 5/20/2023	TX	>1b
Convective Storm		5/22/2023 - 5/26/2023	TX, NM, CO	>250m
Convective Storm		5/23/2023 - 5/25/2023	ID, MT	>25m
Convective Storm		5/31/2023 - 6/4/2023	NM, TX, TN, PA	>100m
Convective Storm		6/5/2023 - 6/8/2023	KS, TX, TN, VA	>100m
Convective Storm		6/9/2023 - 6/14/2023	TX, OK, AR, MS, AL, TN, GA, LA	>1b
Convective Storm		6/15/2023 - 6/19/2023	TX, OK, LA, AMS, AL, FL, KS, AR, MO	>1b
Convective Storm		6/15/2023 - 6/16/2023	OH, MI, VA	>250m
Convective Storm		6/21/2023 - 6/26/2023	TX, CO, NM, WY, NE, SD, IA, MN, AR, IN, KY	>3b
Convective Storm	Midwest Derecho	6/28/2023 - 7/4/2023	CO, KS, NE, IL, MO, IA, IN, KY, PA	>1b

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Convective Storm		7/3/2023 - 7/9/2023	SC, NC, VA	>250m
Convective Storm		7/5/2023 - 7/10/2023	TX, OK, CO, KS, NE	>1b
Convective Storm	Illinois Tornadoes	7/9/2023 - 7/14/2023	NE, IA, SD, IL, MI, MN	>500m
Convective Storm		7/15/2023 - 7/19/2023	KS, MO, NE	>250m
Convective Storm		7/19/2023 - 7/21/2023	MI, OH, PA, TN, AL	>1b
Convective Storm		7/19/2023 - 7/20/2023	MN	>25m
Convective Storm		7/25/2023 - 7/31/2023	MN, WI, IA, IL, IN, OH, MO, KS, NE	>500m
Convective Storm	Arizona Duststorm	7/25/2023 - 7/30/2023	NY, NH, VT, PA, MA	>25m
Convective Storm		8/4/2023 - 8/8/2023	MO, KS, CO, IL, NC, PA, NE	>500m
Convective Storm		8/10/2023 - 8/11/2023	SD, NE, MN, IA, MO, WI, MI	>1b
Convective Storm		8/12/2023 - 8/15/2023	OH, PA, NY, KY, TN, NC, SC, GA	>25m
Convective Storm		8/22/2023 - 8/24/2023	MI, OH,PA	>250m
Convective Storm		8/31/2023 - 9/2/2023	AZ, CA, NV	>25m
Convective Storm		9/9/2023 - 9/11/2023	KS, NE, TX, OK	>250m
Convective Storm		9/12/2023 - 9/14/2023	TX	>25m
Convective Storm		9/23/2023 - 9/24/2023	MN, SD, NE, KS, MO, OK, TX	>500m
Convective Storm		9/26/2023 - 9/27/2023	MO, IL, KY	>25m
Convective Storm		10/2/2023 - 10/5/2023	TX, KS, NE, OK	>250m
Convective Storm		10/23/2023 - 10/24/2023	WI, MN	>100m
Convective Storm	Tornados	10/24/2023 - 10/26/2023	TX	>100m
Convective Storm	Tornadoes, Hail	12/8/2023 - 12/10/2023	LA, TN, KY, MS, AL, FL, NC	>250m

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Non U.S. List of Catastrophes For Use in Reporting Catastrophe Data in PR036 and PR100+

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
	Convective Storm	01/08/15	01/11/15	Windstorm Elon-Felix	Germany, Norway, UK, Sweden, Denmark				358m
	Convective Storm	03/06/15	03/18/15	Hailstorm, floods	India				106m
	Convective Storm	03/24/15	03/25/15	Thunderstorms, flood	China				25+m
	Convective Storm	04/06/15	04/09/15	Thunderstorms, hail	China				25+m
	Convective Storm	04/18/15	04/21/15	Thunderstorms, hail, flood	China				50+m
	Convective Storm	04/21/15		Thunderstorms, hail	India				25+m
	Convective Storm	05/05/15	05/08/15	Thunderstorms, hail	China				50+m
	Convective Storm	05/13/15		Tornadoes	Germany				54m
	Convective Storm	05/29/15	06/01/15	Thunderstorms, hail	China				75+m
	Convective Storm	06/21/15	06/23/15	Thunderstorms, hail	China				25+m
	Convective Storm	07/21/15	07/22/15	Thunderstorms, hail, tornadoes, flood	Canada				100-300m
	Convective Storm	08/04/15	08/05/15	Thunderstorms, hail	Canada				25-100m
	Convective Storm	10/24/15	10/25/15	Thunderstorms, hail, flood	Egypt				25+m
	Convective Storm	04/25/15		Hailstorm	Australia				306m
	Convective Storm	02/22/16	02/25/16	Thunderstorms, tornadoes	Canada				600m-1b
	Convective Storm	03/08/16	03/11/16	Thunderstorms, hail	UAE, Oman				100m
	Convective Storm	04/20/16	04/25/16	Thunderstorm, hail	China				25+m
	Convective Storm	06/23/16		Thunderstorm, hail, tornado	China				100+m
	Convective Storm	06/23/16		Thunderstorms, hail	Netherlands				527m
	Convective Storm	06/24/16	06/25/16	Thunderstorm, hail, flood	Germany				253m
	Convective Storm	06/28/16	06/30/16	Thunderstorms, hail, tornado, flood	Canada				64m
	Convective Storm	07/15/16	07/16/16	Thunderstorms, hail, flood	Canada				56m
	Convective Storm	07/18/16	07/20/16	Thunderstorm, hail, tornadoes	Canada				74m
	Convective Storm	07/30/16	08/01/16	Thunderstorms, hail, tornadoes, flood	Canada				327m
	Convective Storm	11/11/16		Thunderstorms, hail	Australia				197m
	Convective Storm	07/22/16		Hailstorm	Canada				56m
	Convective Storm	02/01/17	02/02/17	Windstorm Kurt, Live, Marcel	France, Spain				86m
	Convective Storm	02/23/17	02/24/17	Windstorm Thomas	UK, Germany, Belgium, Netherlands, Ireland				292m
	Convective Storm	03/06/17	03/07/17	Windstorm Zues	France				341m
	Convective Storm	03/08/17	03/09/17	Windstorm	Canada				84m
	Convective Storm	05/23/17	05/24/17	Thunderstorms, hail, flood	Canada				52m
	Convective Storm	08/06/17	08/10/17	Thunderstorms, hail, flood	Italy				168m
	Convective Storm	10/05/17		Windstorm Xavier	Germany, Poland, Czech Republic, Netherlands				420m
	Convective Storm	10/09/17	10/10/17	Thunderstorms, hail, flood	South Africa				81m
	Convective Storm	10/16/17	10/18/17	Windstorm	Canada				87m

Non U.S. List of Catastrophes For Use in Reporting Catastrophe Data in PR036 and PR100+

	Convective Storm	10/29/17		Windstorm Herwart	Germany, Austria, Denmark, Poland, Czech Republic, Slovakia, Hungary				390m
	Convective Storm	12/19/17		Thunderstorms, hail, flood	Australia				296m
	Convective Storm	02/18/17		Hailstorm	Australia				400m
	Convective Storm	06/22/17	06/23/17	Hailstorm Paul, Hailstorm Rasmund	Germany, Hungary				721m
	Convective Storm	06/24/17	06/28/17	Thunderstorms, hail, flood	Italy				132m
	Convective Storm	07/21/17	07/27/17	Hailstorm	Switzerland				88m
	Convective Storm	07/27/17		Thunderstorms, hail, flood	Turkey				185m
	Convective Storm	01/01/18		Windstorm Ingmar	France				<226m
	Convective Storm	01/03/18		Windstorm Burglind	Austria, Belgium, France, Germany, Ireland, Luxembourg, Netherlands, Switzerland, U.K.				1020m
	Convective Storm	01/17/18	01/18/18	Windstorm Friederike	Belgium, France, Germany, Great Britain, Netherlands, Italy, Central Europe				2,100m
	Convective Storm	01/23/18	01/24/18	Windstorm Georgina	Ireland, Norway, U.K.				<226m
	Convective Storm	09/19/18	09/20/18	Windstorm Dorcas-Elena	Ireland, Norway, U.K.				<226m
	Convective Storm	09/23/18		Windstorm Fabienne	Germany, Austria, Switzerland				<226m
	Convective Storm	04/10/18	04/11/18	Tornadoes	New Zealand				51m
	Convective Storm	May	June		Central/western Europe				900m
	Convective Storm	12/20/18		Hailstorm	Australia				492m
	Convective Storm	03/09/19	03/10/19	Windstorm Dragi-Eberhard	Belgium. France, UK, Germany, Czech Republic, Poland, Slovakia, Netherlands, Luxembourg				851m
	Convective Storm	06/20/19	06/23/19	Windstorm	Italy				277m
	Convective Storm	07/08/19	07/10/19	Windstorm	Italy				165m
	Convective Storm	11/17/19		Sunshine Coast Hailstorm	Australia				112m
	Convective Storm	12/10/19	12/22/19	Ewindstorm Elsa-Fabien	Spain, Portugal, France				149m
	Convective Storm	06/10/19	06/13/19	European Hailstorm	Germany, Poland, Slvenia, Czech Republic				830m
	Convective Storm	01/20/20		Hailstorm	Australia				1,250m
	Convective Storm	02/08/20	02/11/20	Windstorm Sabine/Ciara	Austria, Belgium, Switzerland. Germany, Denmark, France, UK, Ireland, Luxembourg, Netherlands, Norway, Sweden				2,200m
	Convective Storm	02/15/20	02/17/24	Windstorm Victoria-Dennis	Belgium, Demark, France, Germany, Ireland, Luxembourg, Netherlands, Norway, Sweden, UK				372m
	Convective Storm	09/26/20	09/27/20	Windstorm Odette	Belgium				28+m
	Convective Storm	09/30/20	10/03/20	Windstorm Alex-Brigitte	UK, Spain, Portugal, France, Italy, Austria, Poland, Czech Republic				340m
	Convective Storm	10/31/20		South East Queensland Hailstorm	Australia				905m
	Convective Storm	01/08/21	01/10/21	Windstorm Filomena	Spain				259m
	Convective Storm	01/18/21	01/20/21	Windstorm Christoph	UK, Norway				106-159m
	Convective Storm	03/10/21	03/13/21	Windstorm Klaus-Luis	France, Belgium, UK, Ireland, Germany, Netherlaands, Luxembourg				192m
	Convective Storm	10/20/21	10/23/21	Windstorm Aurore	France, Belgium, Germany, Poland, Luxembourg, Czech Republic				362m
	Convective Storm	11/26/21	11/28/21	Windstorm Arwen	UK				330-396m
	Convective Storm	06/18/21	07/01/21	Europe Hailstorm	Austria, Czech Republic, Germany, Poland, Switzerland, Slovakia, France, Italy				2,132m
	Convective Storm	06/24/21		Tronado	Czech Republic				200m
	Convective Storm	10/28/21	10/29/21	Hail	Australia				733m
	Convective Storm	01/16/22	01/17/22	Windstorm Hannelore	Norway, Sweden, Denmark, Poland, Finland, Lithuania, Liechtenstein				>25m
	Convective Storm	01/29/22	01/30/22	Windstorms Malik, Nadia, Valtteri	Denmark, Germany, Sweden, Austria, Czech Republic, UK, Norway, Poland, Slovakia, Lithuania, Latvia				>100m
	Convective Storm	02/06/22	02/07/22	Windstorm Roxana	Germany, France, UK, Belgium				>25m

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	Convective Storm	02/16/22	02/21/22	Windstorms Dudley, Eunice, Franklin	Germany, Belgium, Netherlands, Luxembourg, UK, Ireland, France, Poland, Czech Republic, Austria, Denmark, Switzerland				>1b
	Convective Storm	04/06/22	04/07/22	Windstorm Nasim	Germany, Belgium, France, UK, Netherlands				>25m
	Convective Storm	05/20/22		Emmelinde	France, Germany				>100m
	Convective Storm	05/22/22	05/25/22	Finja	France, Italy, Austria, Hungary, Switzerland, Slovenia				>100m
	Convective Storm	06/02/22	06/06/22	Leocardia, May	France, Switzerland, Germany, Slovenia, Austria, Czech Republic, Hungary				>250m
	Convective Storm	06/19/22	06/24/22	Petra, Qiara	France, Germany, Switzerland, Italy, Czech Republic, Poland				>1b
	Convective Storm	06/26/22	06/29/22	Rebecca, Scarlett	France, Czech Republic, Germany, Italy, Poland, Netherlands, Austria				>250m
	Convective Storm	06/30/22	07/01/22	Ulrike	France, Germany, Poland				>25m
	Convective Storm	07/20/22		Carolin	Switzerland, France, Denmark, Austria, Poland				>25m
	Convective Storm	08/17/22	08/21/22	Karin, Lavinia	France, Italy, Austria, Switzerland, Slovenia,				>100m
	Convective Storm	05/21/22		Southern Canada Derecho	Canada				>250m
	Convective Storm	07/18/22	07/21/22		Canada				>25m
	Convective Storm	01/15/23	01/18/23	Windstorm Gerard/Gero	Belgium, Switzerland, Czech Republic, Germany, France, UK				>25m
	Convective Storm	02/16/23	02/18/23	Windstorm Otto/Ulf	Germany, Denmark, UK, Norway, Poland, Sweden				>25m
	Convective Storm	03/07/23	03/10/23	Windstorm Larisa/Diethelm	Austria, Belgium, Czech Republic, Germany,France, Ireland, UK, Netherlands, Luxembourg				>25m
	Convective Storm	03/30/23	03/31/23	Windstorm Mathis/Markus	Belgium, Swtzerland, Czech Republic, Germany, France, UK				>25m
	Convective Storm	07/04/23	07/06/23	Windstorm Poly	Germany, Italy, Netherlands				>25m
	Convective Storm	11/01/23	11/03/23	Windstorm Ciaran/Emir	Bulgaria, Germany, Spain, France, UK, Ireland, Italy, Netherlands				>1b
	Convective Storm	11/04/23	11/05/23	Windstorm Domingos/Fred	Spain, France				>100m
	Convective Storm	11/15/23	11/17/23	Windstorm Frederico/Linus	Germany, France, UK				>25m
	Convective Storm	12/20/23	12/22/23	Windstorm Pia/Zoltan	Austria, Belgium, Czech Republic, Germany, Denmark, France, UK, Netherlands,Norway				>100m
	Convective Storm	12/26/23	12/28/23	Windstorm Gerrit/Bodo	Ireland, UK				>25m
	Convective Storm	06/18/23	06/23/23	Lows Kay, Lambert	Austria, Belgium, Czech Republic, Germany, France, Slovakia				>250m
	Convective Storm	07/06/23		Zargoza	Spain, France				>25m
	Convective Storm	07/11/23	07/13/23		Austria, Czech Republic, France, Germany, Italy, Slovenia, Serbia				>250m
	Convective Storm	07/17/23	07/19/23		Austria, Bosnia, Croatia, Germany, Italy, Serbia, Slovakia, Slovenia				>1b
	Convective Storm	07/20/23	07/25/23		Bosnia, Switzerland, Germany, France, Serbia, Hungary, Italy, Serbia, Slovakia, Slovenia, Romania				>1b
	Convective Storm	08/12/23	08/16/23	Arend, Bernd	Austria, Czech Republic, Germany, France, Italy, Poland				>100m
	Convective Storm	08/24/23	08/30/23	Denis, Rae	Austria, Czech Republic, France, Germany, Italy, Lithuania, Latvia, Norway, Poland, Spain, Switzerland				>1b
	Convective Storm	07/01/23			Canada				>25m
	Convective Storm	07/13/23			Canada				>25m
	Convective Storm	07/15/23	07/16/23		Canada				>25m
	Convective Storm	07/20/23	07/21/23		Canada				>25m
	Convective Storm	08/03/23			Canada				>25m
	Convective Storm	08/23/23	08/25/23		Canada				>25m
	Convective Storm	08/24/23			Canada				>25m
	Convective Storm	05/23/23	05/26/23		Australia				>25m
	Convective Storm	12/23/23	12/26/23		Australia				>100m

Source: Munich Re's NAT CAT Service, Swiss Re Sigma and Aon Benfield

Attachment Four-C
Capital Adequacy (E) Task Force
3/25/25

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☒ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ P/C RBC (E) Working Group
☐ Economic Scenarios (E/A) Subgroup
☐ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 3/24/25

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ON BEHALF OF: Catastrophe Risk (E) Subgroup
NAME: Wanchin Chou
TITLE: Chair
AFFILIATION: Connecticut Department of Insurance
ADDRESS: 153 Market St., Hartford CT 06103

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Agenda Item #2025-06-CR
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)
EXPOSED:
☐ TASK FORCE (TF)
☒ WORKING GROUP (WG) 3/24/25
☒ SUBGROUP (SG) 3/24/25
REJECTED:
☐ TF ☐ WG ☐ SG
OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

To clarify the information companies provided should reflect in annual basis.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

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DISCLOSURE OF CLIMATE CONDITIONED CAT EXPOSURE
PR027BI, PR027BII, PR027BIII, PR027BIV, PR027CI, PR027CII, PR027CIII, PR027CIV

These disclosures aim at collecting the impact of climate related risks on the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. These disclosures will be effective for YE 2024, YE 2025 and YE 2026 reporting. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge. **The information provided should reflect the annual loss dollars for the given reporting year.**

Detail Eliminated To Conserve Space

Attachment Four-D
Capital Adequacy (E) Task Force
3/25/25

2023 P&C RBC - Comparison of RBC Action Level With and Without Modeled Wildfire Losses on Companies Reported Wildfire Peril in Rcat Component (1 in 50, 1 in 100, 1 in 250, & 1 in 500)

Worst Year in 50		2023 RBC Action Level with Wildfire Peril						
2023 RBC Action Level without Wildfire Peril	MCL	ACL	RAL	CAL	Trend Test	No Action	Total
MCL	1						1
ACL							0
RAL				1			1
CAL					1		1
Trend Test					7	1	8
No Action						395	395
Total	1	0	0	1	8	396	406

Worst Year in 100		2023 RBC Action Level with Wildfire Peril						
2023 RBC Action Level without Wildfire Peril	MCL	ACL	RAL	CAL	Trend Test	No Action	Total
MCL	1						1
ACL							0
RAL							0
CAL			1				1
Trend Test			1		7		8
No Action				1	3	392	396
Total	1	0	2	1	10	392	406

Worst Year in 250		2023 RBC Action Level with Wildfire Peril						
2023 RBC Action Level without Wildfire Peril	MCL	ACL	RAL	CAL	Trend Test	No Action	Total
MCL	2						2
ACL							0
RAL							0
CAL			3	2			5
Trend Test			1	1	6		8
No Action				2	1	388	391
Total	2	0	4	5	7	388	406

Worst Year in 500		2023 RBC Action Level with Wildfire Peril						
2023 RBC Action Level without Wildfire Peril	MCL	ACL	RAL	CAL	Trend Test	No Action	Total
MCL	3						3
ACL		4					4
RAL			8				8
CAL			2	11			13
Trend Test	1				5		6
No Action			2	2	1	367	372
Total	4	4	12	13	6	367	406

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Tom Botsko, Chair of the Property & Casualty Risk-Based Capital (E) Working Group
Wanchin Chou, Vice-Chair of the Property & Casualty Risk-Based Capital (E) Working Group
Steve Drutz, Chair of the Health Risk-Based Capital (E) Working Group
Matthew Richard, Vice-Chair of the Health Risk-Based Capital (E) Working Group

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

DATE: November 19, 2024

RE: SAPWG Referral for RBC Assessment for Capital Notes and Non-Bond Debt Securities

---

On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers to provide application guidance to certain investments in accordance with the adopted bond definition. This adopted INT includes guidance for the classification of certain investments, primarily those issued by banks and treated as capital by banking regulators similarly to how insurance regulators treat surplus notes, as capital notes in scope of *SSAP No. 41—Surplus Notes*. Although the guidance for capital notes in SSAP No. 41 is not new, it is anticipated that limited investments have been previously reported under those guidelines, as those investments were likely reported as bonds prior to the adopted principles-based bond definition.

Comments received (see attached) in the review of INT 24-01 identified that property & casualty and health companies do not have the ability to receive more granular RBC for capital notes, whereas life companies have the ability to report ratings from credit rating providers (CRPs) for held capital notes to influence RBC. These comments noted that by classifying certain debt securities as capital notes, which are reported on Schedule BA, the RBC impact for P&C and health companies would impose an onerous capital requirement on a highly rated instrument. Note that this dynamic already exists for surplus notes. These comments requested this matter to be reviewed, and that P&C and health insurers be able to follow the provisions permitted by life companies for capital notes reported on Schedule BA.

In considering these comments, the Statutory Accounting Principles (E) Working Group did not incorporate any revisions prior to the adoption of the INT, as investments shall be accounted and reported based on the applicable statutory accounting guidance, regardless of the resulting RBC charge. The Working Group did agree to send a referral to the P&C and Health RBC Working Groups to inform of the comments and to allow for the RBC Working Groups to consider whether modifications should be incorporated into the RBC formula accordingly.

Although the specific comment was focused on capital notes, the Statutory Accounting Principles (E) Working Group has also identified that differences also exist in the calculation of RBC for non-bond debt securities that will be reported on Schedule BA after the principles-based bond definition becomes effective on January 1, 2025. If

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RBC consistency by type of insurer is desired, consideration may be appropriate for both capital notes and non-bond debt securities.

- Capital Notes & Surplus Notes: Life insurers with investments reported as held capital notes or surplus notes on Schedule BA are permitted to report these investments with CRP ratings. Items reported with CRP ratings result with RBC that corresponds to the bond factors.

- Non-Bond Debt Securities: Life insurers that report non-bond debt securities on Schedule BA are permitted to report these investments with an SVO-Assigned designation. Items reported with SVO-Assigned designations flow through AVR similar to a bond with a corresponding NAIC designation. For these investments, only SVO-Assigned designations are permitted, and ratings received from credit-rating providers cannot be used in allocating the investment through AVR.

The Working Group appreciates your time and consideration of this referral, recognizing that any changes for the RBC of P&C and Health companies is strictly within the purview of the RBC Working Groups. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Maggie Chang, Kazeem Okosun; Derek Noe

Attachment: Comment Letter Dated Oct. 28, 2024 from Spectrum Asset Management, LLC

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2024/SAPWG to PCRBC and HRBC - Bonds - 11-18-24.docx

Jeffrey Gass
Managing Director
Institutional Sales and Business Development
Spectrum Asset Management, Inc.
203-321-1153
Email: jgass@samipfd.com

Chad Stogel
Senior Vice President
Research
Spectrum Asset Management, Inc.
203-321-1132
Email: cstogel@samipfd.com

October 28, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Comments on *Principles-Based Bond Definition Implementation Questions and Answers* (Last Updated: October 2, 2024)

Dear Mr. Bruggeman:

Thank you for the opportunity to provide comments on the *Principles-Based Bond Definition Implementation Questions and Answers* document dated October 2, 2024, during the NAIC National Meeting in Denver with comments due October 28th. Please note that our comments reflect our opinion only.

Regarding the "Implementation Questions and Answers" document, section 10.4:

"Investments in debt securities treated as regulatory capital by the issuer's primary regulatory authority, and ***that do not qualify*** *under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an act of default are capital notes and shall be captured in SSAP No. 41—Surplus Notes. These capital notes are often issued by domestic or foreign banks, and the domestic or foreign bank regulator or the Issuer has the ability to cancel interest or dividends, without future interest accumulation or payment."*

We are specifically concerned about the RBC treatment of certain debt instruments moving to Schedule BA for P&C/Health filers. In particular, we are focused on securities classified as "capital notes" captured in SSAP No. 41 – Surplus Notes to be reported on Schedule BA as this rule change will have unintended and uneconomic consequences for the institutions holding these highly rated instruments.

For example, a highly rated security such as the Allianz 3.2% perpetual restricted Tier 1 notes (rated A3/A by Moody's/S&P) may classify under section 10.4 "capital notes" captured in SSAP 41 – Surplus Notes *(e.g.,* non-cumulative with optional coupon cancellation, albeit extremely remote based on issuer fundamentals and as indicated by the security ratings).

While Life insurers may be able to continue to use Filing Exempt (FE) designations or to file with the SVO to get a similar RBC factor as if it were held on Schedule D, Part 1, Bonds allowing an NAIC 1 bond factor for this instrument to be maintained on Schedule BA, P&C and Health cannot. As a result of this asset moving from Schedule D to Schedule BA, the RBC factor would increase to ~20% for P&C and Health from 1.5% and 1.9%, respectively today.

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In our opinion, this reclassification imposes onerous capital requirements on a highly rated instrument (ratings which incorporate both credit and structure). We believe this deviates from the underlying fundamental risk as capital requirements would be higher than those for common equity holdings and could misallocate otherwise sound investments.

As such, we request that this matter be reviewed, and that P&C and Health insurers be able to file with the SVO/use Filing Exempt (FE) designations for RBC for capital notes reported on Schedule BA and suggest a change to P&C/Health RBC risk factors for capital notes, in line with that afforded to Life insurers. Thank you for your consideration as it relates to this matter.

Sincerely,

Jeffrey Gass and Chad Stogel
Spectrum Asset Management, Inc.
A member of the Principal Financial Group®

CC: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr and Wil Oden

Appendix: Structural ratings differentials between various credits and the prospective P&C RBC factors

						P&C		
		Moody's	S&P	Fitch	Current RBC Factor	New RBC Factor	Change in RBC Factor
Allianz	Restricted Tier 1	A3	A	N/A	1.50	20.00	18.50
	Senior Unsecured	Aa2	AA	AA-			
	Notching	4	3				
Barclays	Contingent Convertible Sec	Ba1	BB-	BBB-	5.50	20.00	14.50
	Senior Unsecured	Baa1	BBB+	A			
	Notching	3	5	4			
HSBC	Contingent Convertible Sec	Baa3	N/A	BBB	2.50	20.00	17.50
	Senior Unsecured	A3	A-	A+			
	Notching	3		4			
NatWest Group PLC	Contingent Convertible Sec	Baa3	BB-	BBB-	2.50	20.00	17.50
	Senior Unsecured	A3	BBB+	A			
	Notching	3	5	4			
Societe Generale	Contingent Convertible Sec	Ba2	BB	BB+	6.00	20.00	14.00
	Senior Non-Preferred	Baa2	BBB	A-			
	Notching	3	3	4			
Banco Santander	Contingent Convertible Sec	Ba1	BBB-	N/A	5.50	20.00	14.50
	Senior Non-Preferred	Baa1	A-	A-			
	Notching	3	3				
JP Morgan	Preferred	Baa2	BBB-	BBB+	1.00	1.00	0.00
	Senior Unsecured	A1	A-	AA-			
	Notching	4	3	4			
Bank of America	Preferred	Baa2	BBB-	BBB+	1.00	1.00	0.00
	Senior Unsecured	A1	A-	AA-			
	Notching	4	3	4			
Truist Financial	Preferred	Baa3	BBB-	BBB-	1.00	1.00	0.00
	Senior Unsecured	Baa1	A-	A-			
	Notching	2	3	3			
CMS Energy Corp	Preferred	Ba1	BBB-	BB+	2.00	2.00	0.00
	Senior Unsecured	Baa2	BBB	BBB			
	Notching	2	1	2			
Edison International	Preferred	Ba1	BB+	BB+	2.00	2.00	0.00
	Senior Unsecured	Baa2	BBB-	BBB			
	Notching	2	1	2			
Edison International	Junior Subordinated	Baa3	BB+	BB+	5.50	5.50	0.00
	Senior Unsecured	Baa2	BBB-	BBB			
	Notching	1	1	2			
NextEra	Junior Subordinated	Baa2	BBB	BBB	2.10	2.10	0.00
	Senior Unsecured	Baa1	BBB+	A-			
	Notching	1	1	2			
Prudential Fin	Junior Subordinated	Baa1	BBB+	BBB	1.80	1.80	0.00
	Senior Unsecured	A3	A	A-			
	Notching	1	2	2			

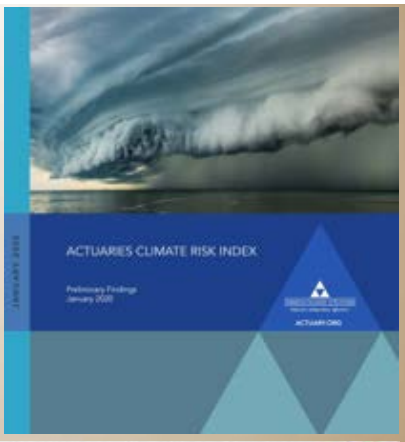
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Observations:

- **NRSROs** (Nationally Recognized Statistical Rating Organizations) generally account for structural subordination in their security ratings. The greater the structural subordination, the greater the ratings notching which is reflected in the security ratings.
    - **Contingent Convertible Securities (CoCos)**: For UK banks, CoCos are typically notched 3, 5, and 4 ratings lower by Moody's, S&P, and Fitch, respectively, from their senior unsecured ratings. For EU banks, CoCos are usually notched 3, 3, and 4 lower from their senior non-preferred ratings.
    - **US G-SIB preferred securities**: These are generally notched 4, 3, and 4 ratings lower from their senior unsecured ratings, while non-G-SIB bank preferreds are notched 2, 3, and 3 (or 4) lower.
    - **Junior Subordinated Securities**: These are typically notched 1, 1, and 2 ratings lower from their respective senior ratings.
- RBC factors for most securities previously classified as "hybrids" are expected to remain unchanged, except for the securities captured by section 10.4 in the "Implementation Questions and Answers" document above. Using the securities above, on average, the securities captured by 10.4 move from a ~ 4% RBC factor to 20% for P&C Insurers ~ a move of 16%.

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NAIC
2025 SPRING NATIONAL MEETING
INDIANAPOLIS, IN

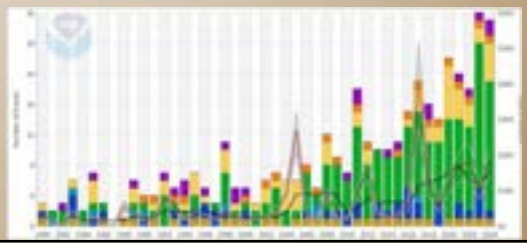


Insights into Catastrophe Trends:

From The Actuaries Climate Index and the US Billion-Dollar Disasters

Presented by
- Steve Kolk, ACAS, MAAA,
- President & Consulting Actuary,
- Kolkulations LLC

Casualty Actuarial Society



1

Agenda

DISCLAIMER:
The analysis of these slides does not present any official position of the CAS.

Opinions herein are mine.

The CAS logo shown throughout, is as an expression of gratitude to Casualty Actuaries who are the lion's share of my many collaborators.

-Steven Kolk

- Climate Indices: ACI and ACRI
  - Phase I - Actuaries Climate Index (2016)
  - Phase II - Actuaries Climate Risk Index (2020 & ???)
- New Insights On the Horizon
  - Climate Change Attribution
- Exploratory Data Analysis (EDA)
  - Value-Added Insights with
  - NOAA's Billion Dollar Disaster (BDD) Database
- Questions

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2

3

CLIMATE INDICES: A.C.I. (2016) AND THE A.C.R.I. (2020* AND ???)

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3

4

ACI and ACRI aims

The **Actuaries Climate Index (ACI)**
[seven] measures [of] changes in climate extremes

- The measures the frequency of extreme climate events over recent decades for the U.S., Canada and 12 sub regions in North America.
- **...a [simple] composite of six...components:**
  - 1) frequency of temperatures above the 90th percentile;
  - 2) frequency of temperatures below the 10th percentile;
  - 3) maximum 5-day rainfall in the month;
  - 4) consecutive dry days;
  - 5) winds above the 90th percentile; and,
  - 6) sea level.
- **The components measure extremes** because extremes have the largest impact on people and property.

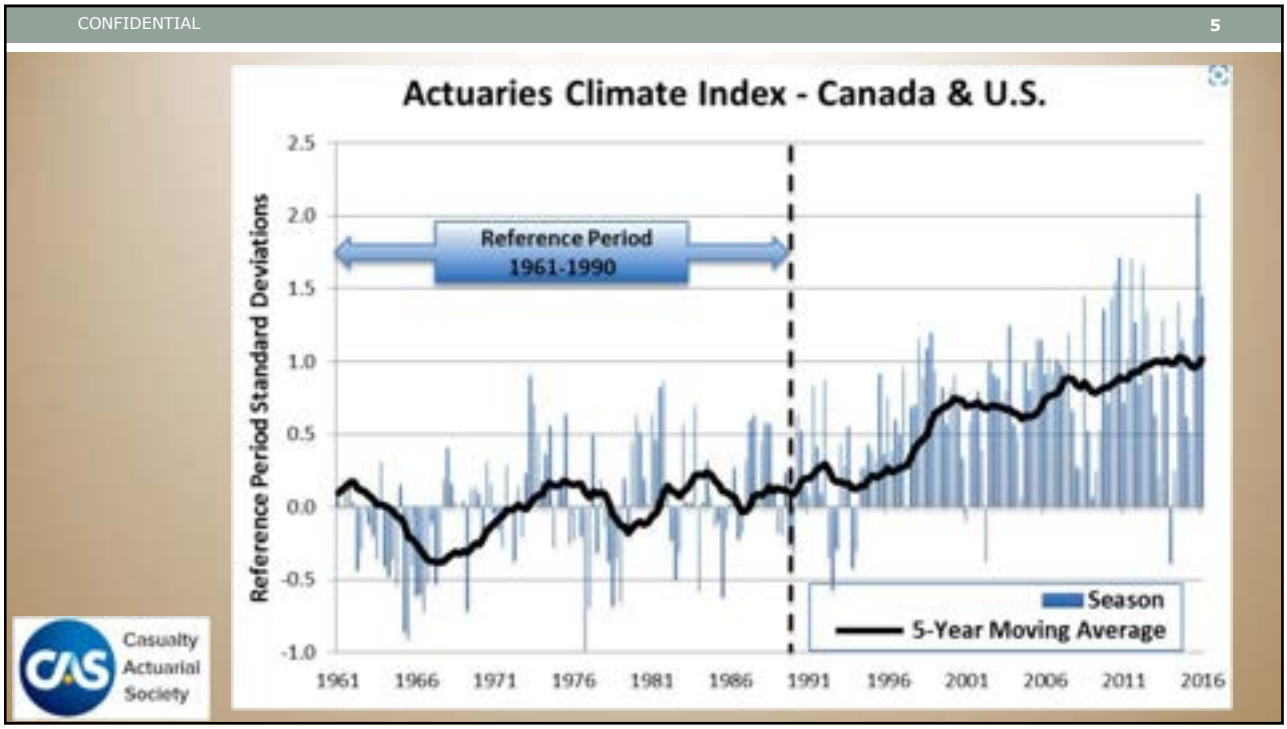


The **Actuaries Climate Risk Index (ACRI)** relates those climate extremes
to economic and human losses.

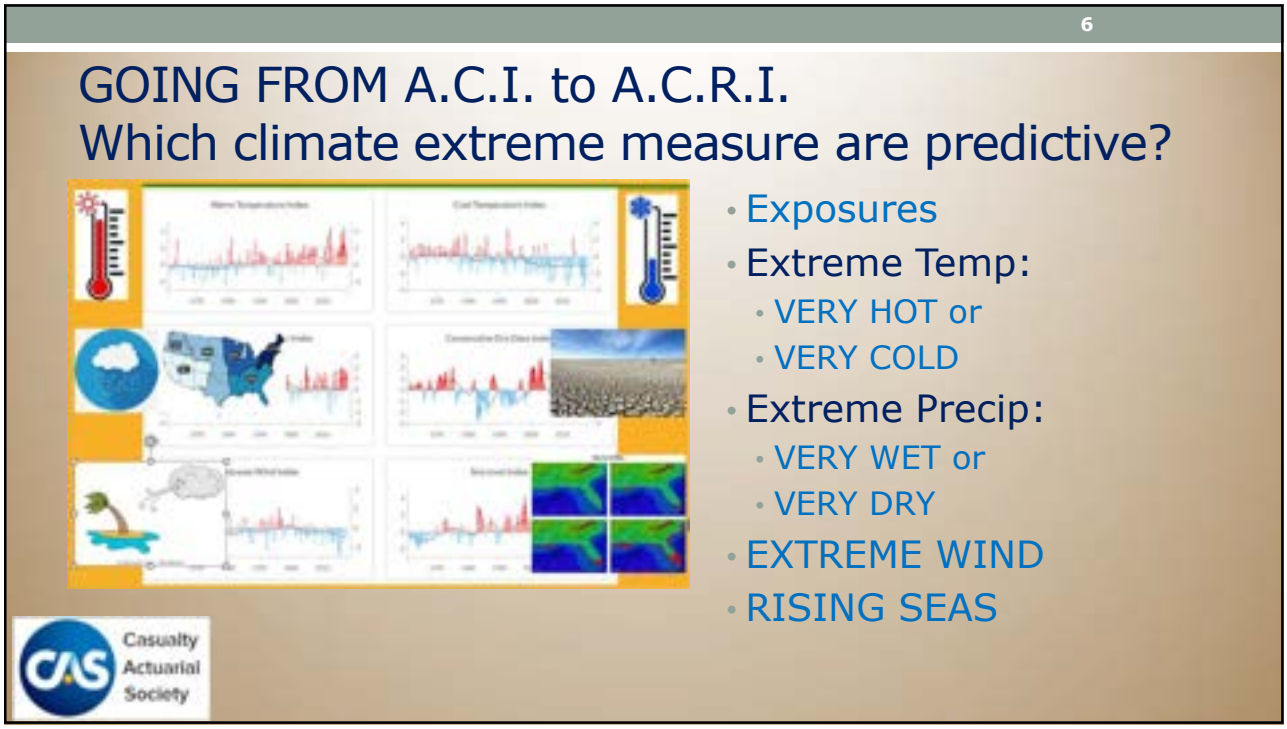
- The Actuaries Climate Risk Index (ACRI) illustrates the ECONOMIC impact of **climate risk** and its evolution over time.
- It does this by integrating information about perils, exposures and susceptibility of exposures to harm by peril into the ACI.

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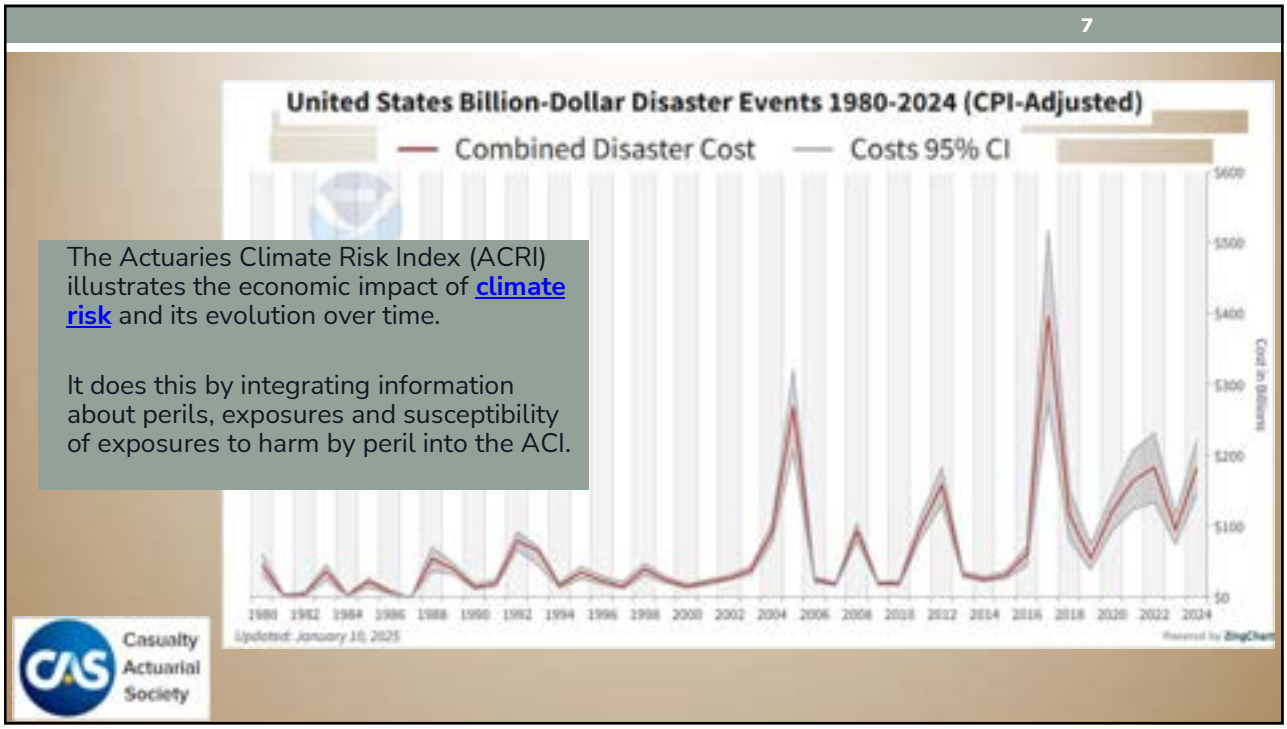
4


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5
Actuaries Climate Index - Canada & U.S.
Reference Period Standard Deviations
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
Reference Period
1961-1990
1961
1966
1971
1976
1981
1986
1991
1996
2001
2006
2011
2016
Season
5-Year Moving Average
Casualty
Actuarial
Society

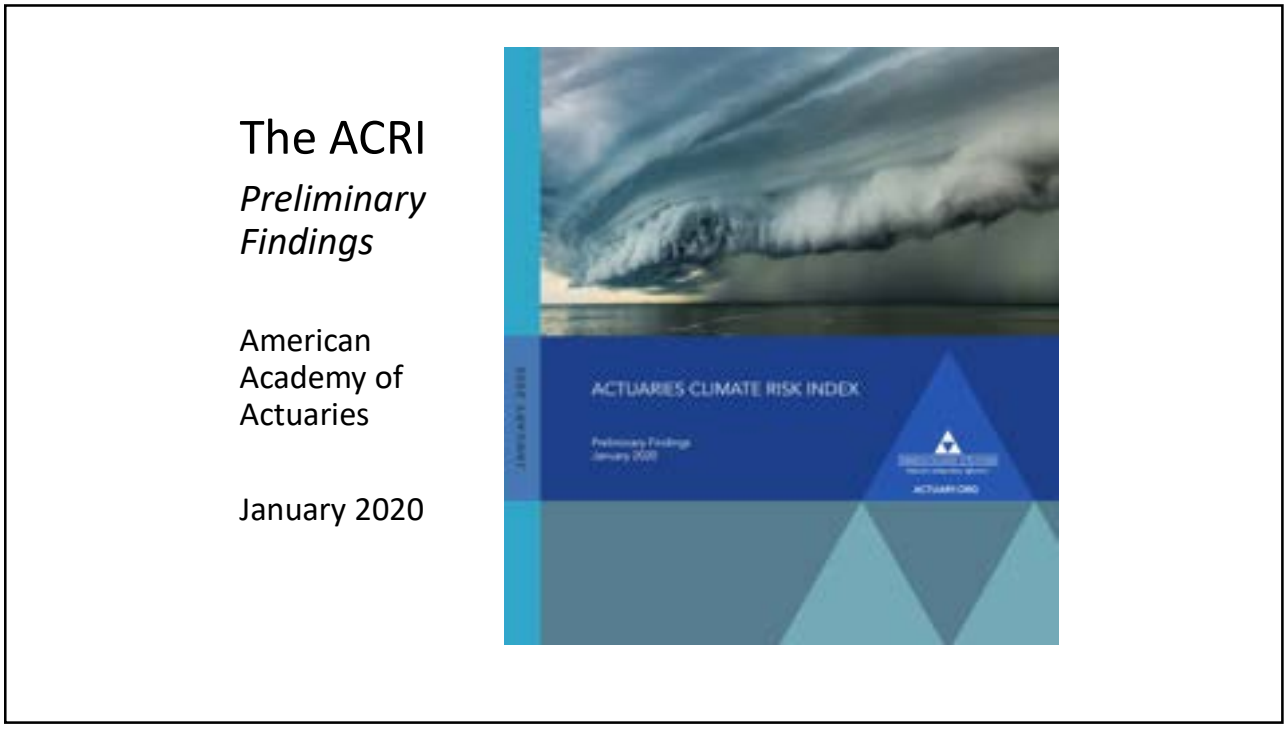
5


6
GOING FROM A.C.I. to A.C.R.I.
Which climate extreme measure are predictive?
• Exposures
• Extreme Temp:
• VERY HOT or
• VERY COLD
• Extreme Precip:
• VERY WET or
• VERY DRY
• EXTREME WIND
• RISING SEAS
Casualty
Actuarial
Society

6


7
United States Billion-Dollar Disaster Events 1980-2024 (CPI-Adjusted)
Combined Disaster Cost
Costs 95% CI
The Actuaries Climate Risk Index (ACRI) illustrates the economic impact of climate risk and its evolution over time.
It does this by integrating information about perils, exposures and susceptibility of exposures to harm by peril into the ACI.
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7


The ACRI
Preliminary Findings
American Academy of Actuaries
January 2020
ACTUARIES CLIMATE RISK INDEX

8

Preliminary ACRI – Loss Data Model

Loss = I * Exposure^{e} * Precip.^{p} * (Low Temp.)^{l} * (High Temp.)^{h} * Wind^{w}

for a particular region in a particular month
where

Loss: Property losses in dollars

I: Intercept

Exposure: Estimated property value at risk

Precipitation (Rx5day): maximum 5-day precipitation in the month

Low Temp. (T10): the change in frequency of colder temp. below 10th percentile, relative to the reference period of 1961 to 1990

High Temp. (T90): *the change in frequency of warmer temp. above 90th percentile, relative to the reference period of 1961 to 1990*

Wind (WP90): Wind Power above the 90th percentile, determined after daily average wind speed measurements is converted to wind power, which is proportional to the cube of the wind speed.

9

10

The Preliminary A.C.I. Answer:
These items found to predict US "Cat" Losses



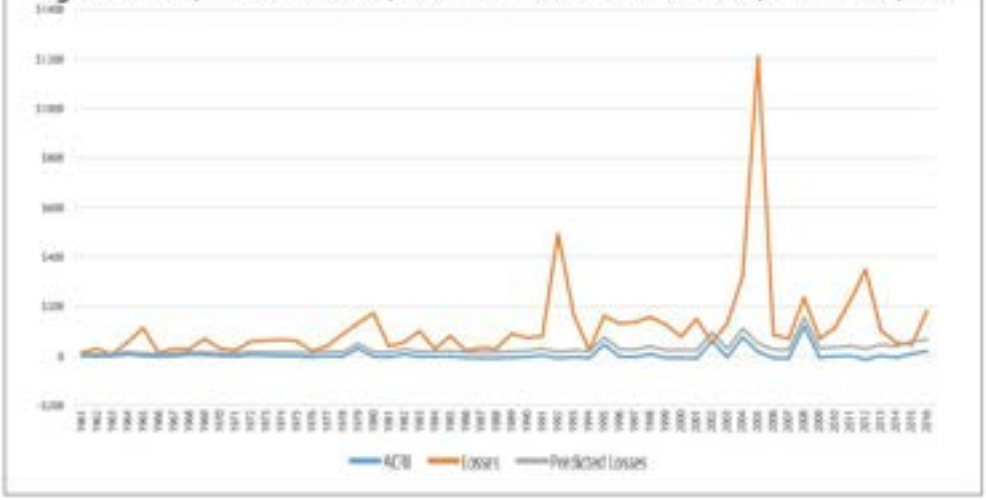
- Exposures
- Extreme Temp:
  - VERY HOT or
  - VERY COLD
- Extreme Precip:
  - VERY WET
- EXTREME WIND

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10

ACRI - Preliminary US Results
Graphical Findings

Figure 1: ACRI, Modeled Losses, Observed Losses: Annual Totals, 1961–2016; USA



11

Preliminary ACRI – Loss Data Model

Statistical Findings

Loss = I * Exposure[e] * Precip.[g] * (Low Temp.)[f] * (High Temp.)[h] * Wind[w]

for a particular region in a particular month

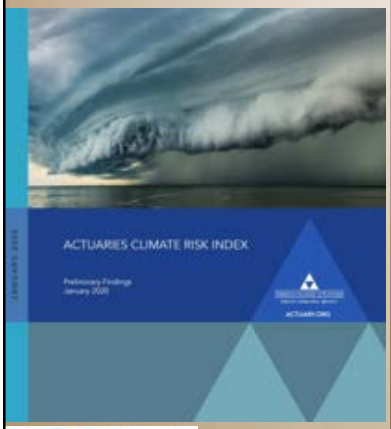
Table 2: Summary of Parameter Estimates Significant at the 90% Confidence Level
(based on estimates for 84 region-months)

	Statistically Significant	Average Value for Region-Months With Statistically Significant Values	Average Value for All
Exposure	70%	1.84	1.29
Rx5Day	54%	4.13	2.21
T10	12%	1.12	0.13
T90	19%	1.11	0.21
Wind	15%	2.80	0.43

12

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Data Comparison to the January 2020 preliminary ACRI



Prototype ACRI Damage Data

Preliminary ACRI Property Damage data	Differences	ACRI Prototype
SHELDUS for Continental US *	**CONUS split into Seven regions, Six ex AK**	**US Billion-Dollar Disasters**
SHELDUS Cost Data for **All** Disasters & **All** Regions Combined	**Four disaster groups:** 1) Tropical Cyclones **2) Severe Storms/Floods** 3) Wildfires/Drought 4) Winter Storms/Freezing	**One** Disaster Type to Focus on Severe Storms & Floods **By ACI Region**
By **Month**		By **Season**
County Data available, not used.	**NOAA Billion-Dollar adjusted costs are more complete than SHELDUS**	State Impact data available, summed into ACI regions

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* The Preliminary ACRI did analyze ACI region data, but it was found less significant than the US Total

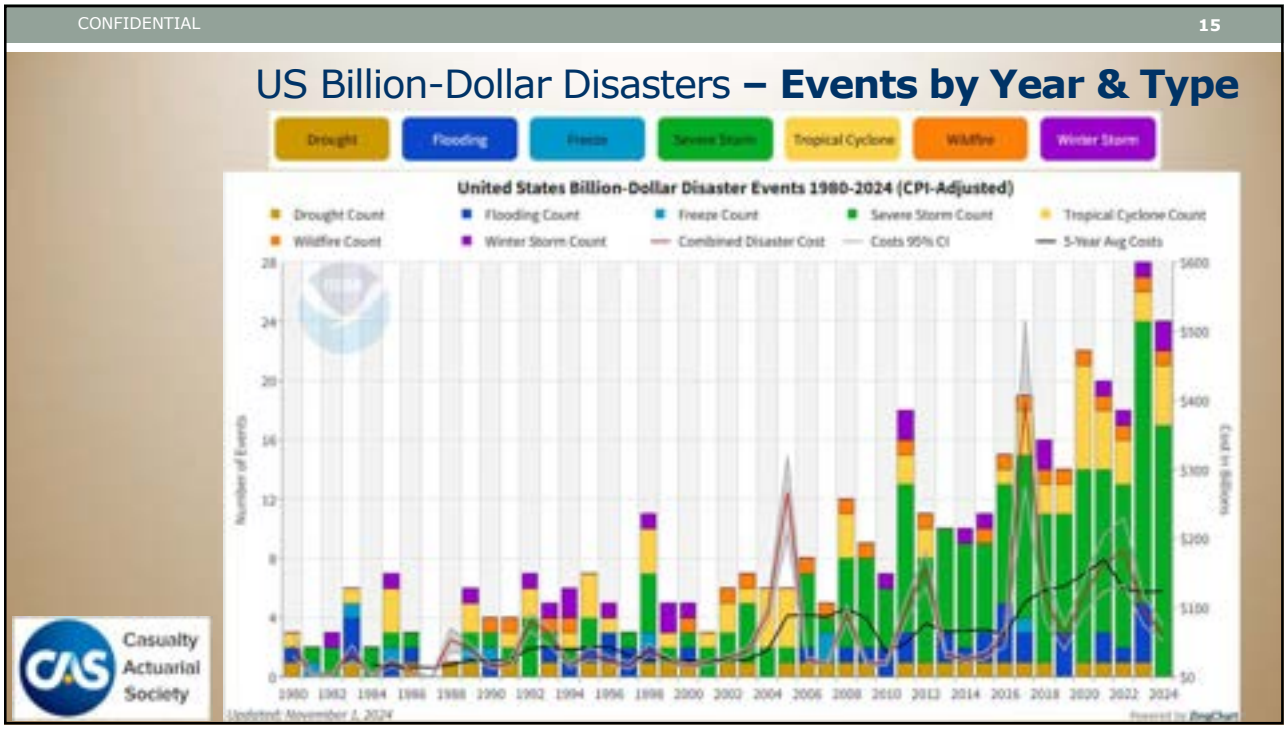
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14

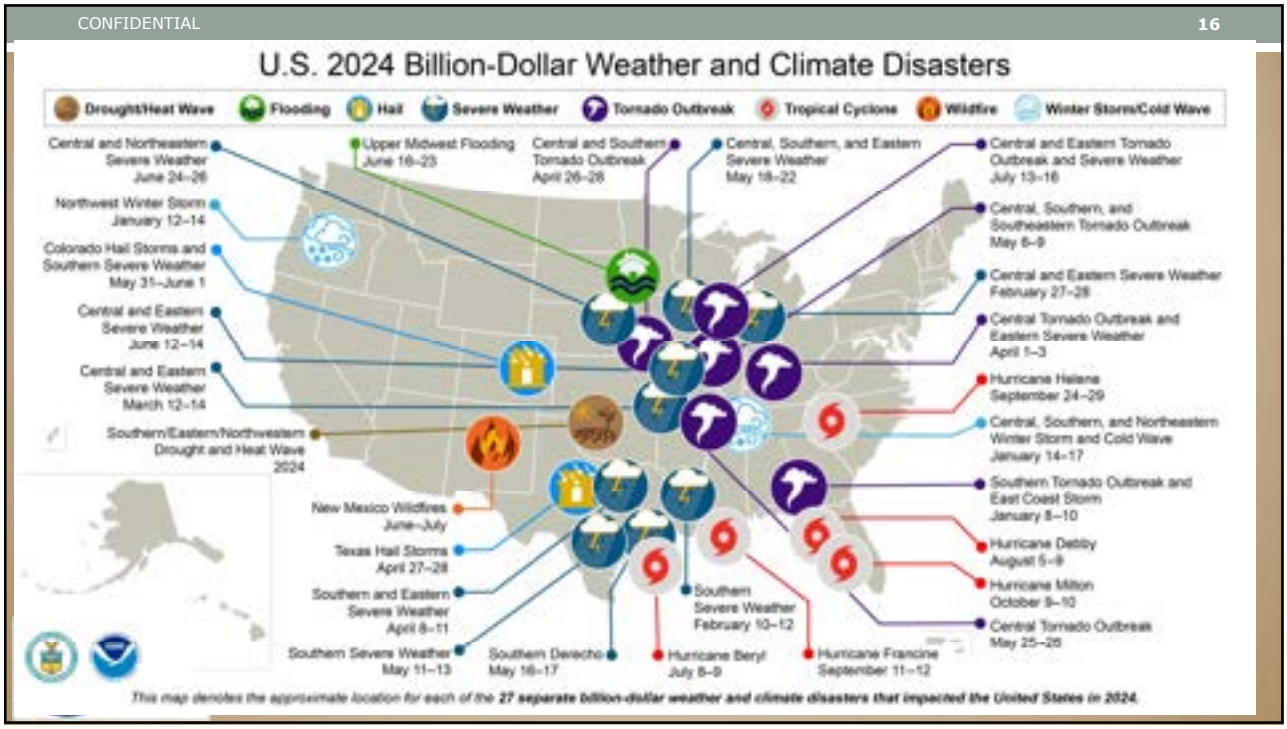
EXPLORATORY DATA ANALYSIS

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14


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15
US Billion-Dollar Disasters – Events by Year & Type
Drought
Flooding
Freeze
Severe Storm
Tropical Cyclone
Wildfire
Winter Storm
United States Billion-Dollar Disaster Events 1980-2024 (CPI-Adjusted)
Drought Count
Flooding Count
Freeze Count
Severe Storm Count
Tropical Cyclone Count
Wildfire Count
Winter Storm Count
Combined Disaster Cost
Costs 95% CI
5-Year Avg Costs
Number of Events
Cost in Billions
Updated: November 1, 2024
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15


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16
U.S. 2024 Billion-Dollar Weather and Climate Disasters
Drought/Heat Wave
Flooding
Hail
Severe Weather
Tornado Outbreak
Tropical Cyclone
Wildfire
Winter Storm/Cold Wave
Central and Northeastern Severe Weather June 24–26
Northwest Winter Storm January 12–14
Colorado Hail Storms and Southern Severe Weather May 31–June 1
Central and Eastern Severe Weather June 12–14
Central and Eastern Severe Weather March 12–14
Southern/Eastern/Northwestern Drought and Heat Wave 2024
Upper Midwest Flooding June 16–23
Central and Southern Tornado Outbreak April 26–28
Central, Southern, and Eastern Severe Weather May 18–22
Central and Eastern Tornado Outbreak and Severe Weather July 13–16
Central, Southern, and Southeastern Tornado Outbreak May 6–9
Central and Eastern Severe Weather February 27–28
Central Tornado Outbreak and Eastern Severe Weather April 1–3
Hurricane Helene September 24–29
Central, Southern, and Northeastern Winter Storm and Cold Wave January 14–17
Southern Tornado Outbreak and East Coast Storm January 8–10
Hurricane Debby August 5–9
Hurricane Milton October 9–10
Central Tornado Outbreak May 25–26
New Mexico Wildfires June–July
Texas Hail Storms April 27–28
Southern and Eastern Severe Weather April 8–11
Southern Severe Weather May 11–13
Southern Derecho May 16–17
Southern Severe Weather February 10–12
Hurricane Beryl July 8–9
Hurricane Francine September 11–12
This map denotes the approximate location for each of the 27 separate billion-dollar weather and climate disasters that impacted the United States in 2024.

16

CONFIDENTIAL 17

Extreme Event Attribution Procedure#

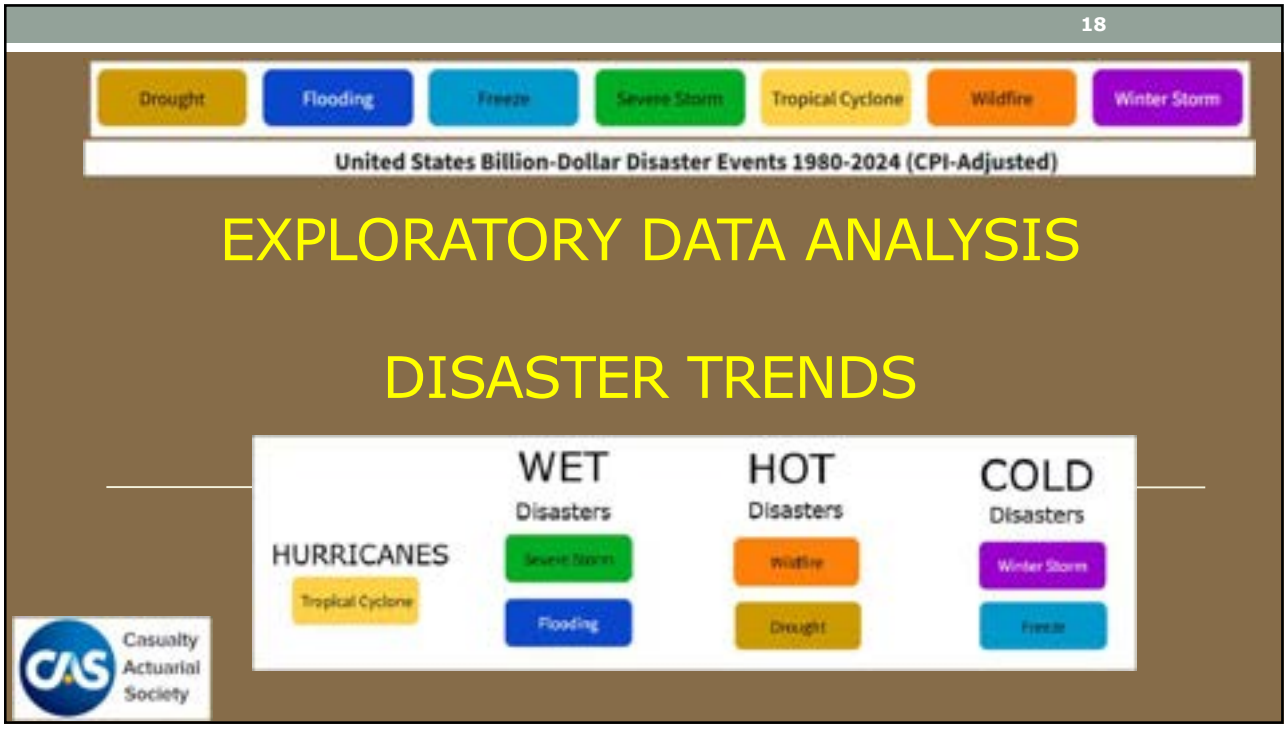
WWA Extreme Event Attribution Process Steps #	ACRI Prototype
1. Analysis Trigger	$1 Billion Economic Cost, in 2024 $
2. Event Definition	Catastrophic Disasters in the Continental US (CONUS)
3. Observational Trend Analysis	Experience from 1980 to date
4. Climate Model Evaluation	Begun with Preliminary ACI
5. Climate Model Analysis	Exploratory Data Analysis
6. Hazard Synthesis	4 disaster types: Cold, Hot, Hurricanes, SevStorm/Floods
7. Analysis of Trends in Vulnerability and Exposure	Analyzed: Population, Housing, BDD Freq/Sev., Seasonality Next Step: Revisit ACI components
8. Communication	

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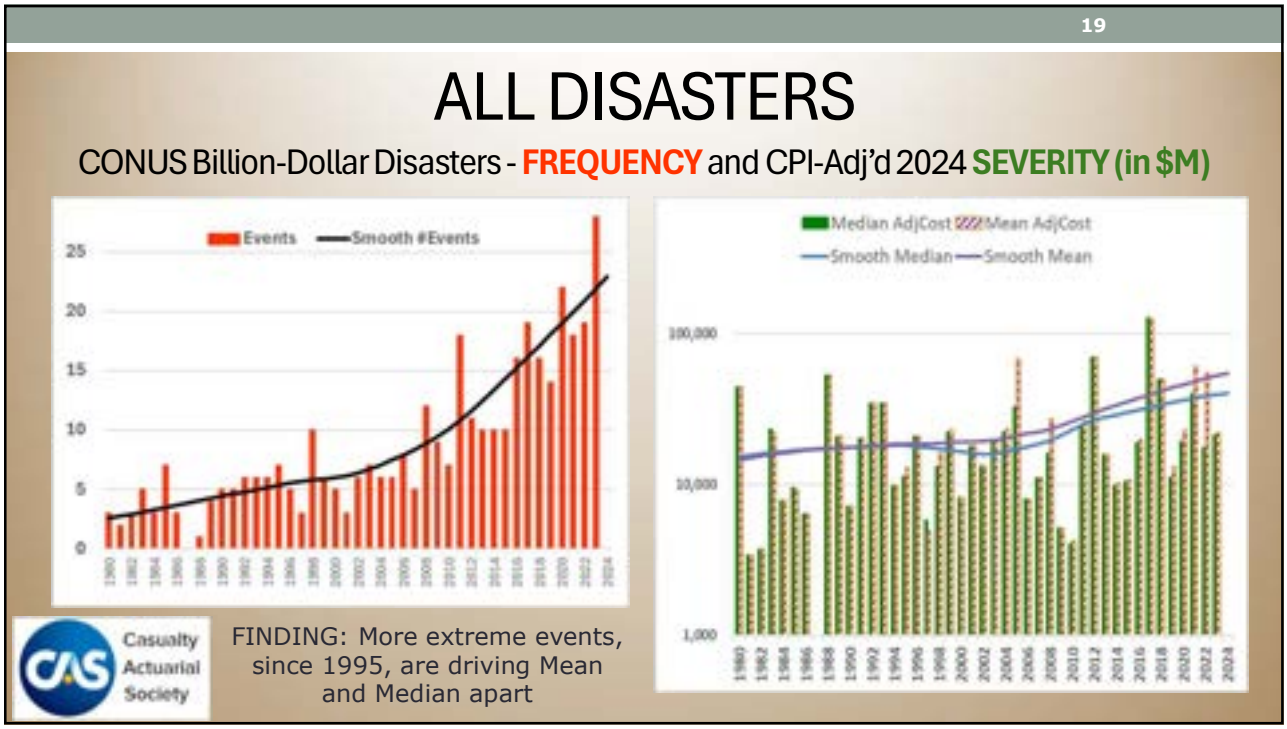
World Weather Attribution (WWA) methodology from *Pathways and Pitfalls in Extreme Event Attribution,* Climatic Change (2021) 166:13 HTTPS://DOI.ORG/10.1007/S10584-021-03071-7

17

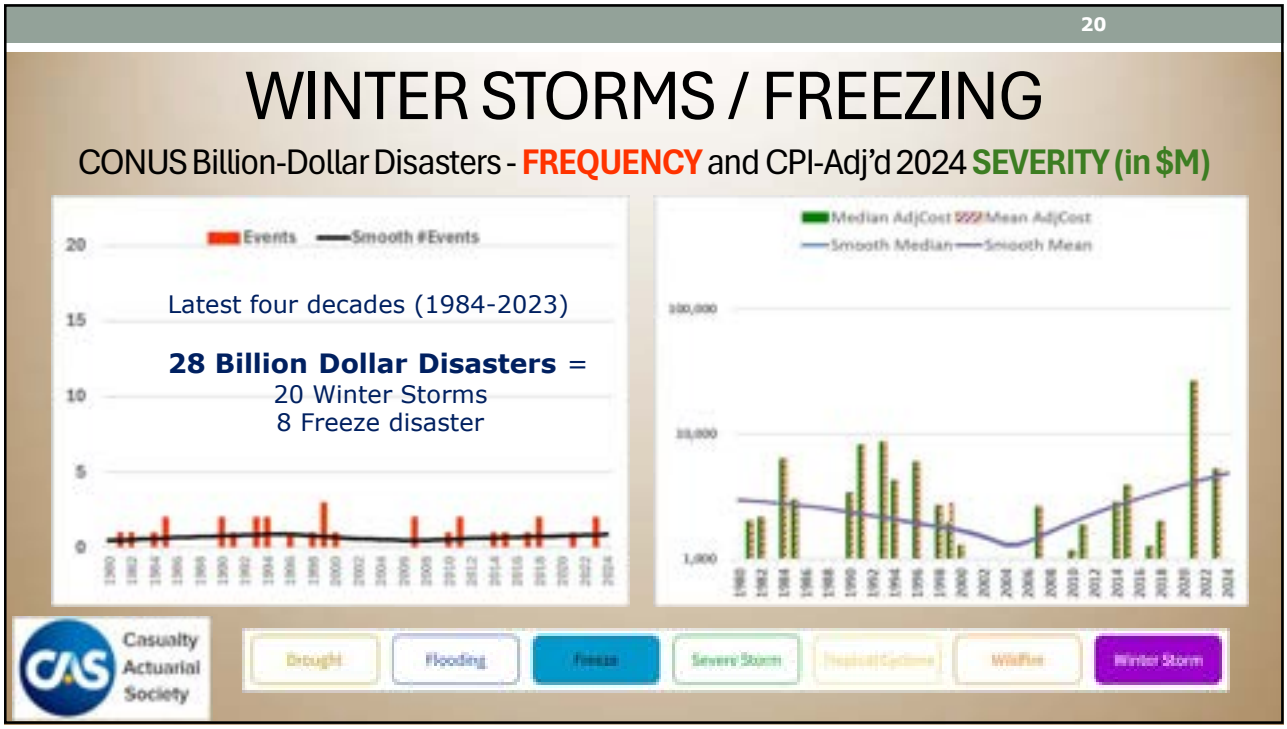
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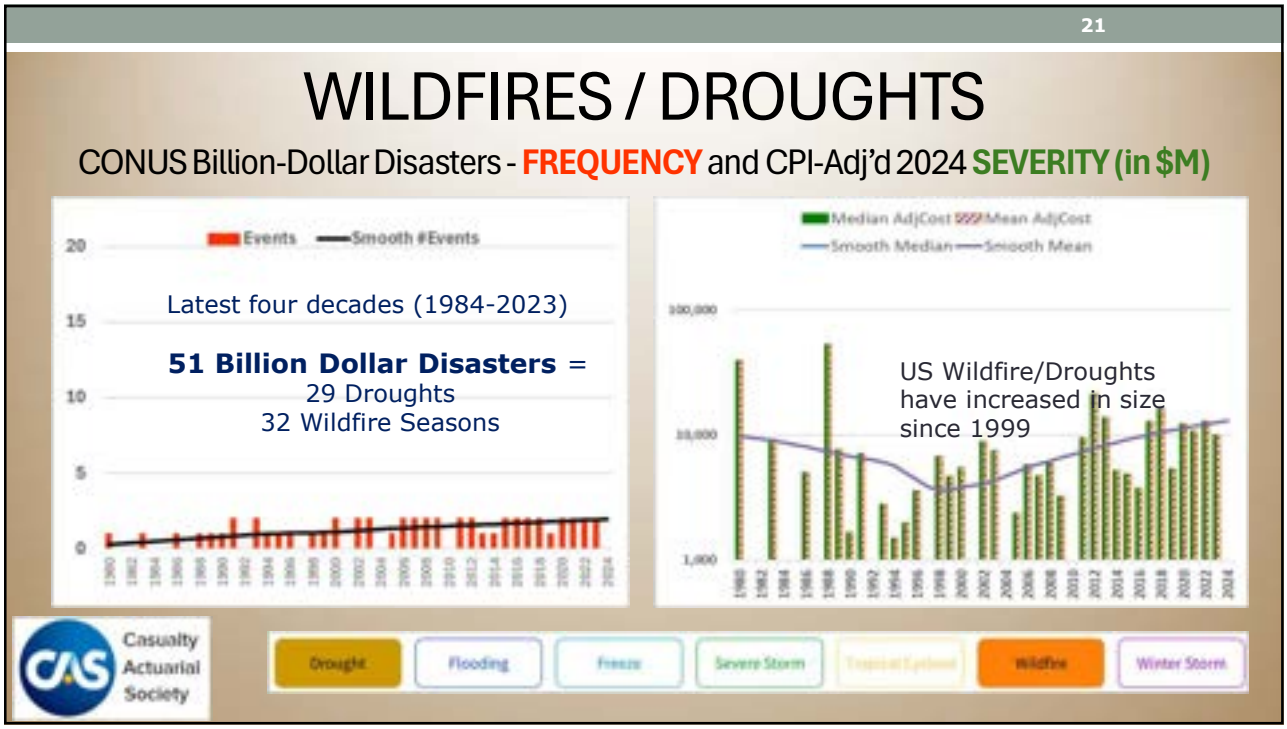
18


19
ALL DISASTERS
CONUS Billion-Dollar Disasters - FREQUENCY and CPI-Adj'd 2024 SEVERITY (in $M)
Events
Smooth #Events
Median AdjCost
Mean AdjCost
Smooth Median
Smooth Mean
Casualty Actuarial Society
FINDING: More extreme events, since 1995, are driving Mean and Median apart

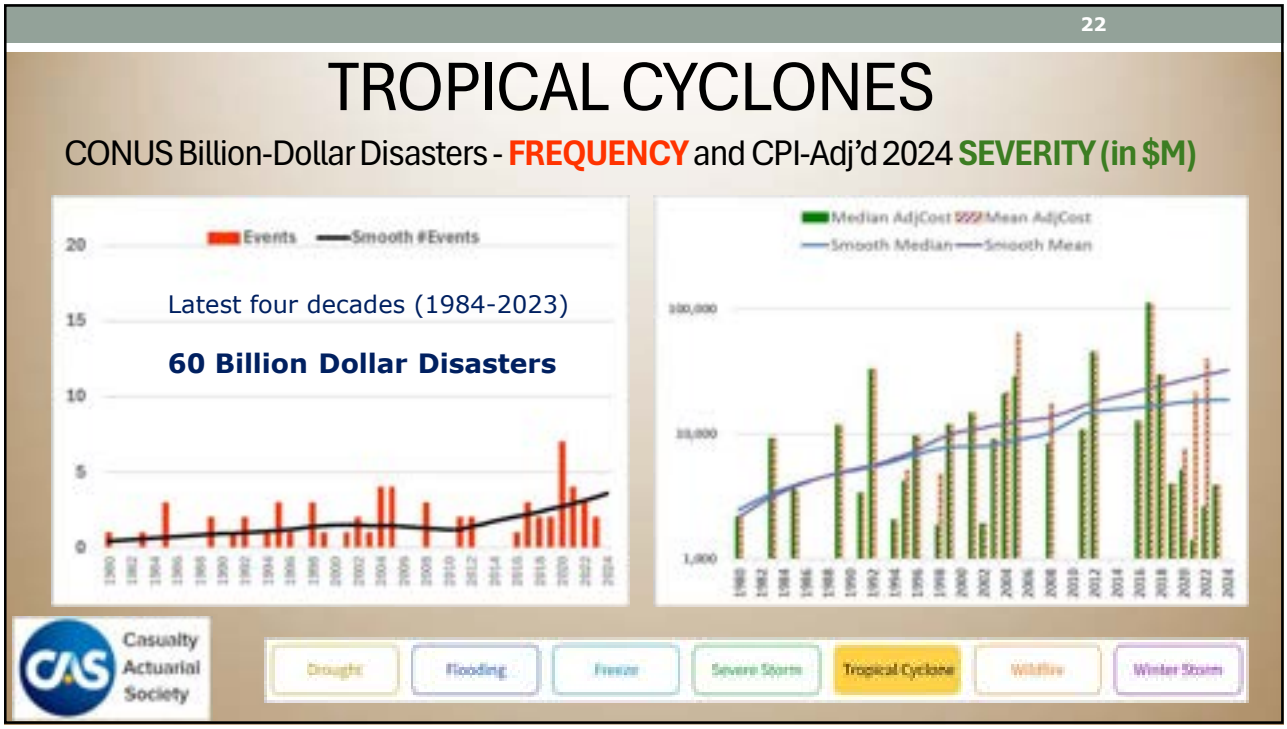
19


20
WINTER STORMS / FREEZING
CONUS Billion-Dollar Disasters - FREQUENCY and CPI-Adj'd 2024 SEVERITY (in $M)
Events
Smooth #Events
Median AdjCost
Mean AdjCost
Smooth Median
Smooth Mean
Latest four decades (1984-2023)
28 Billion Dollar Disasters =
20 Winter Storms
8 Freeze disaster
Casualty Actuarial Society
Drought
Flooding
Freeze
Severe Storm
Tropical Cyclone
Wildfire
Winter Storm

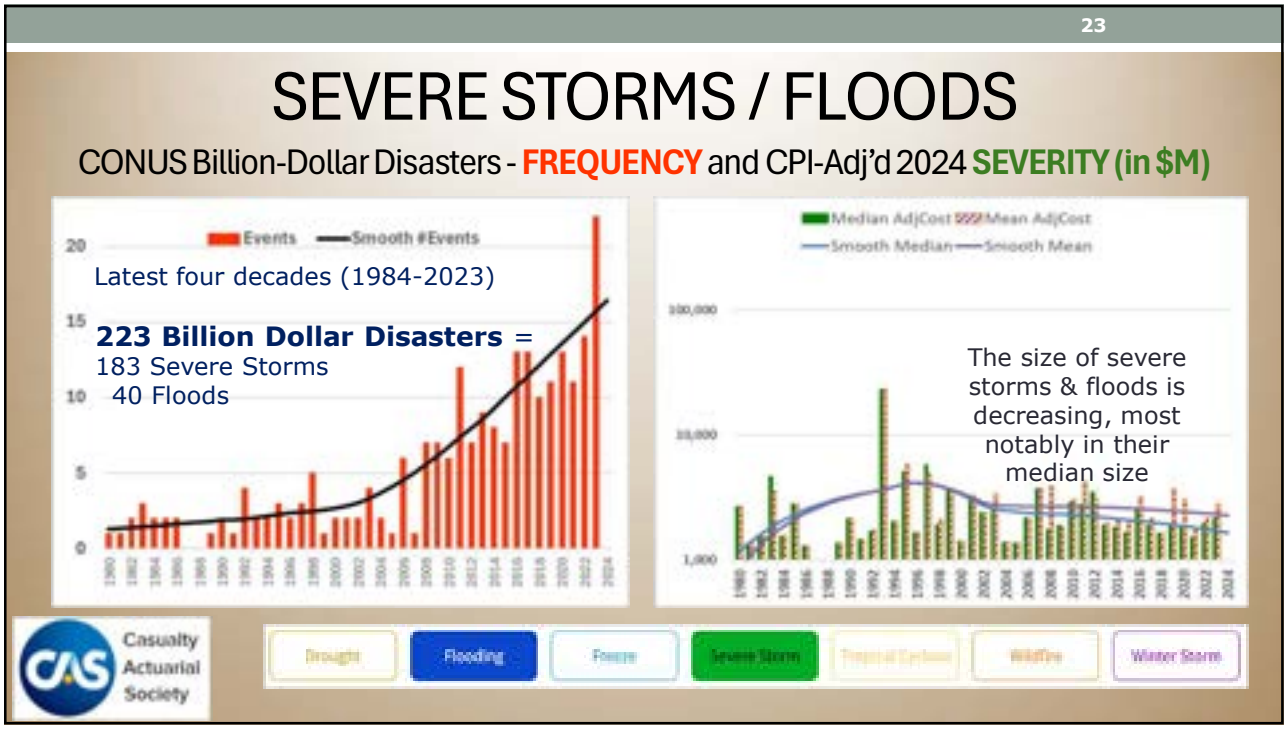
20


21
WILDFIRES / DROUGHTS
CONUS Billion-Dollar Disasters - FREQUENCY and CPI-Adj'd 2024 SEVERITY (in $M)
Events
Smooth #Events
Latest four decades (1984-2023)
51 Billion Dollar Disasters =
29 Droughts
32 Wildfire Seasons
Median AdjCost
Mean AdjCost
Smooth Median
Smooth Mean
US Wildfire/Droughts have increased in size since 1999
Casualty Actuarial Society
Drought
Flooding
Freeze
Severe Storm
Wildfire
Winter Storm

21


22
TROPICAL CYCLONES
CONUS Billion-Dollar Disasters - FREQUENCY and CPI-Adj'd 2024 SEVERITY (in $M)
Events
Smooth #Events
Latest four decades (1984-2023)
60 Billion Dollar Disasters
Median AdjCost
Mean AdjCost
Smooth Median
Smooth Mean
Casualty Actuarial Society
Drought
Flooding
Freeze
Severe Storm
Tropical Cyclone
Wildfire
Winter Storm

22


23
SEVERE STORMS / FLOODS
CONUS Billion-Dollar Disasters - FREQUENCY and CPI-Adj'd 2024 SEVERITY (in $M)
Events
Smooth #Events
Latest four decades (1984-2023)
223 Billion Dollar Disasters =
183 Severe Storms
40 Floods
Median AdjCost
Mean AdjCost
Smooth Median
Smooth Mean
The size of severe storms & floods is decreasing, most notably in their median size
Casualty Actuarial Society
Flooding
Severe Storm
Winter Storm

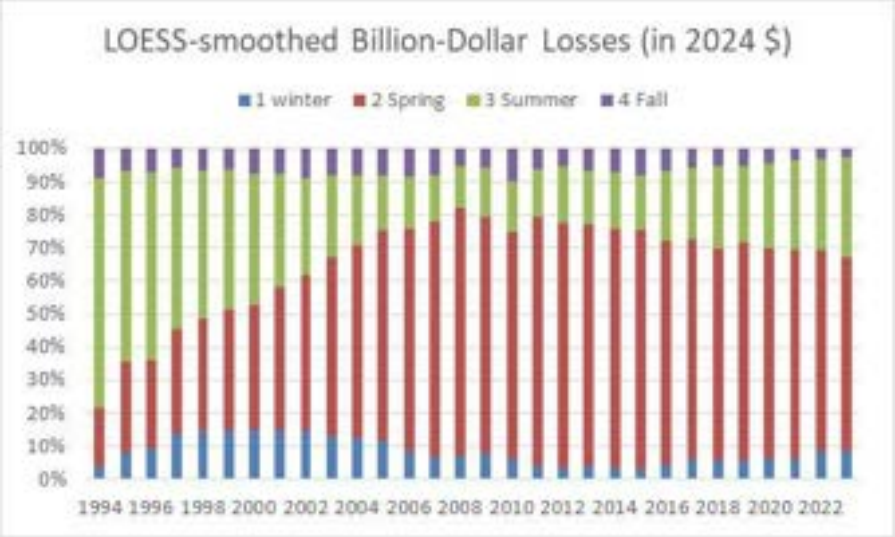
23


24
SEASONAL INSIGHTS
FROM E.D.A. TREND ANALYSIS OF
U.S. BILLION-DOLLAR DISASTERS
Exploration of the US BDD Database to show When? & Where?
And
Casualty Actuarial Society

24

CONFIDENTIAL 25

Severe Storms/Floods 1994-2023

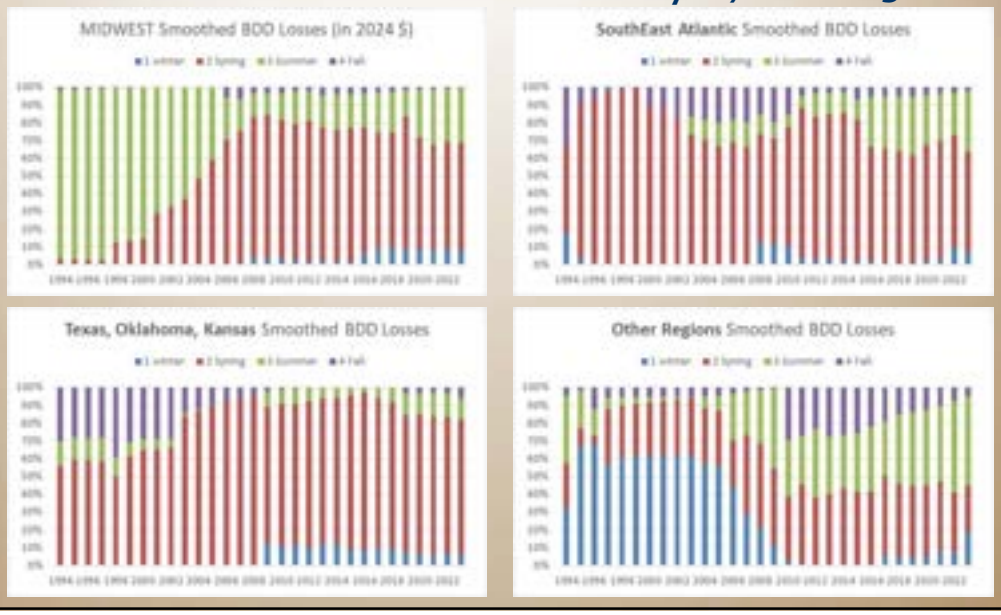


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25

CONFIDENTIAL 26

SevSt/FL Smoothed Loss Seasonality *by ACI Regions*



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26

27

GROUPING YEARS TOGETHER IMPROVES "APPLES TO APPLES" COMPARISONS WITH BUSHEL-TO-BUSHEL TRENDS

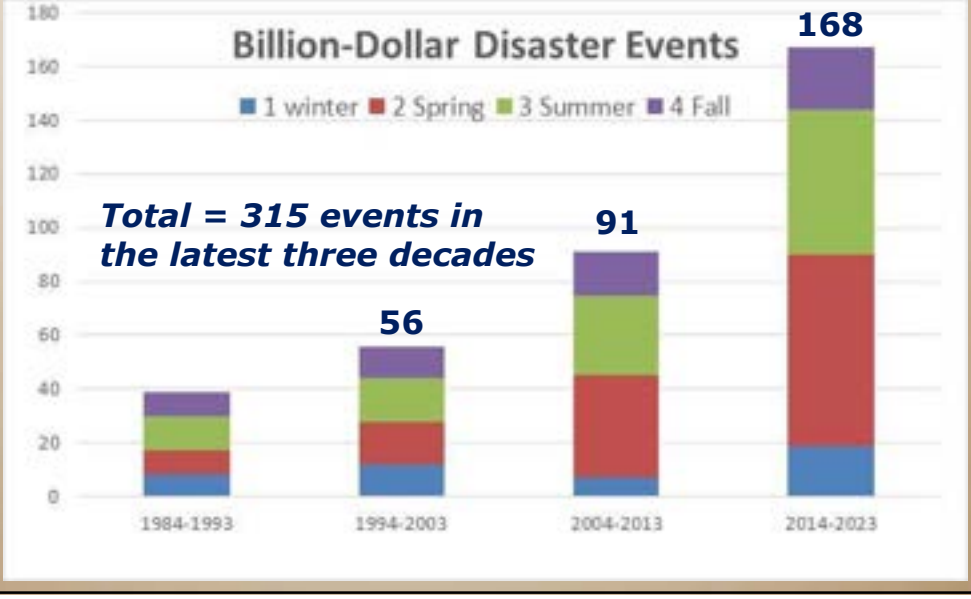
Actuarial Question: How can credible analyses be done?

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27

CONFIDENTIAL 28

Billion-Dollar Disaster Events - by Decade

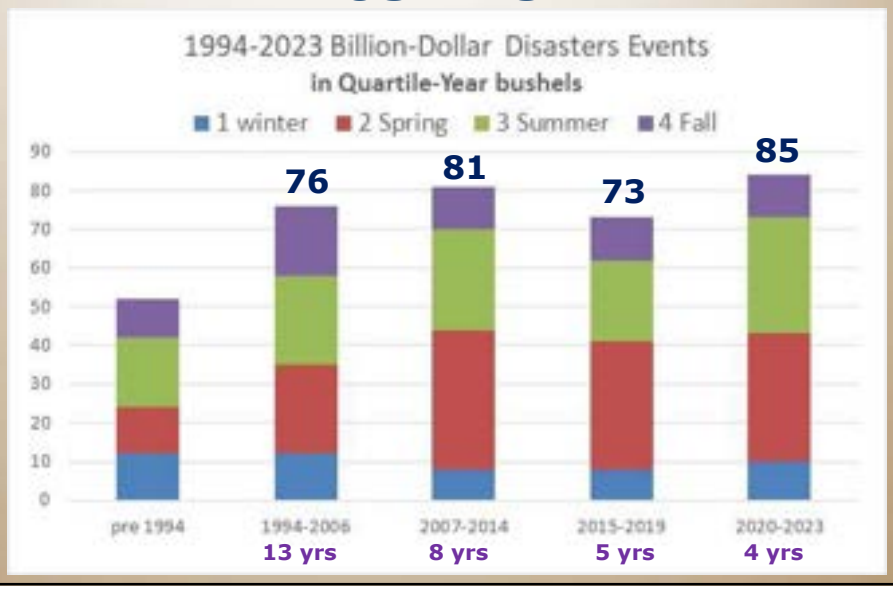


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28

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Billion-Dollar Disaster Events 1994 to 2023
IN 4 BUSHELS



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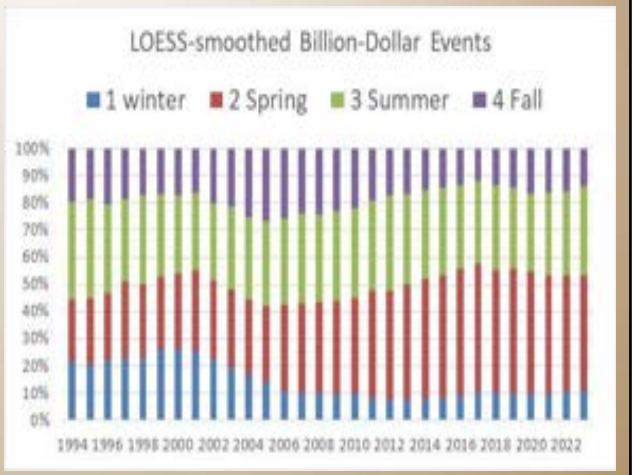
29

30

Proportion of BDD Events by Season

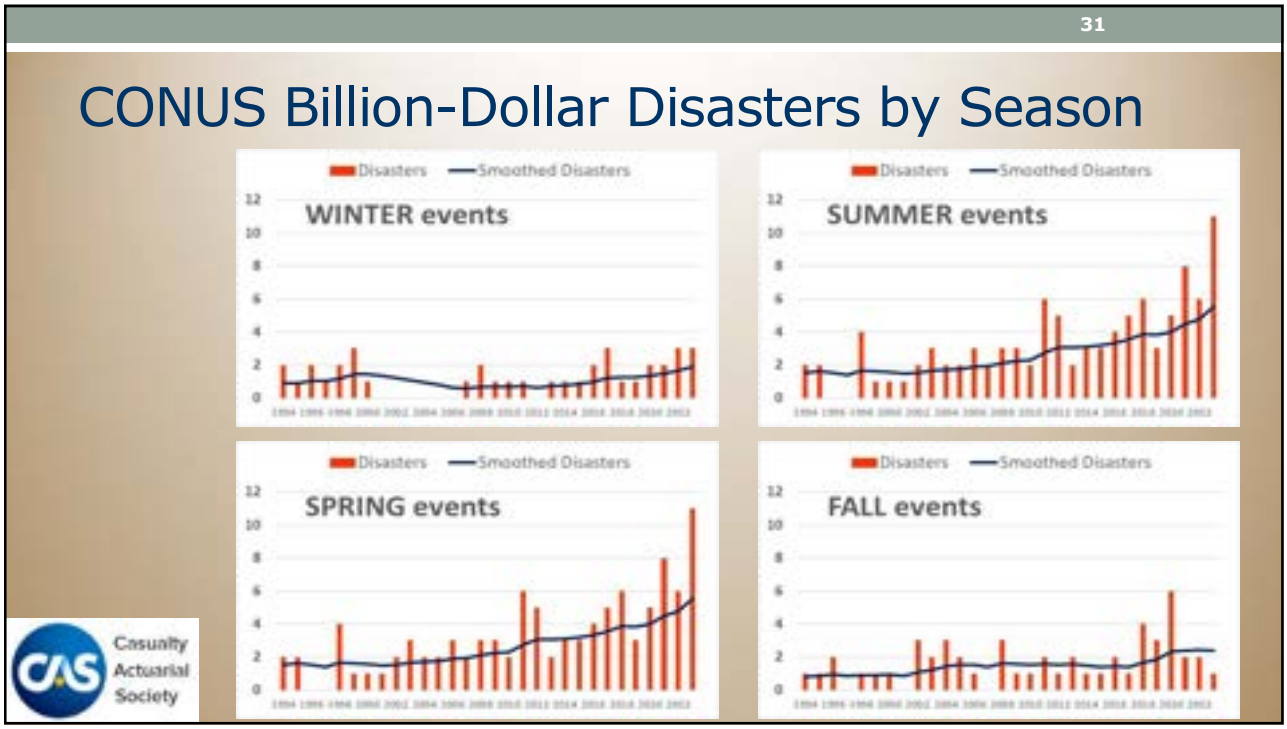
Bushel Years	Winter	Spring	Summer	Fall	Bushel total
1994-2006	12	23	23	18	76
2007-2014	8	36	26	11	81
2015-2019	8	33	21	11	73
2020-2023	10	33	30	11	84

Bushel Years	Winter Ev%	Spring Ev%	Summer Ev%	Fall Ev%
1994-2006	16%	30%	30%	24%
2007-2014	10%	44%	32%	14%
2015-2019	11%	45%	29%	15%
2020-2023	12%	39%	36%	13%

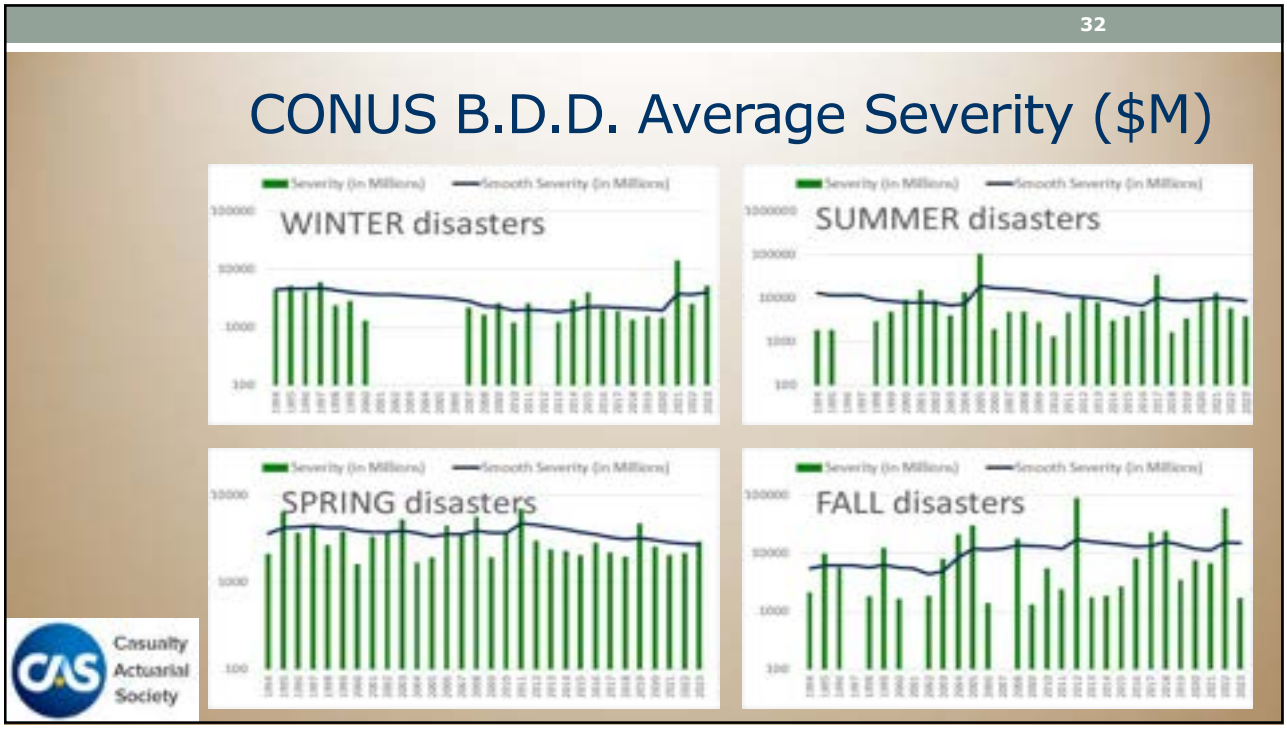


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30


31
CONUS Billion-Dollar Disasters by Season
Disasters
Smoothed Disasters
WINTER events
SUMMER events
SPRING events
FALL events
Casualty Actuarial Society

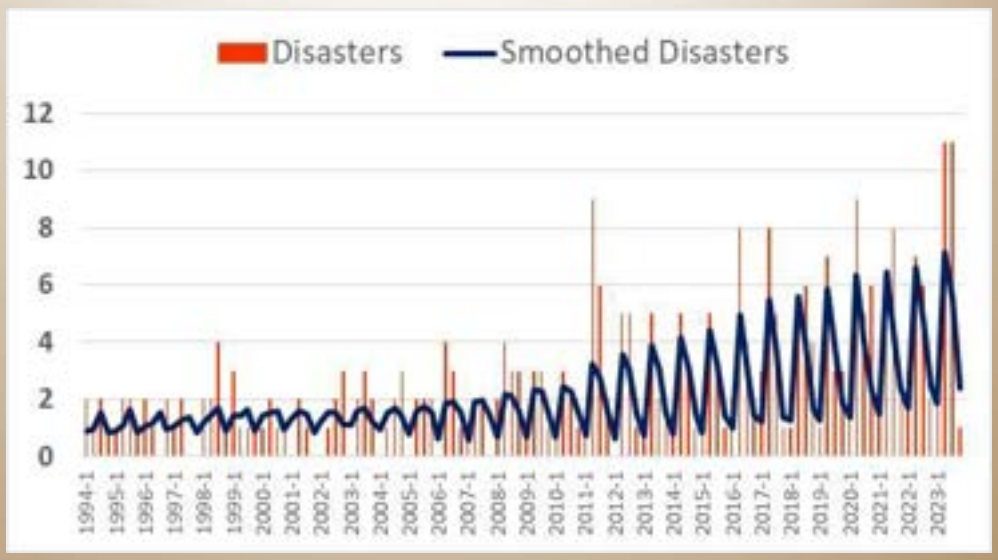
31


32
CONUS B.D.D. Average Severity ($M)
Severity (in Millions)
Smooth Severity (in Millions)
WINTER disasters
SUMMER disasters
SPRING disasters
FALL disasters
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32

33

CONUS BDD Events – 120 seasons (30 years)

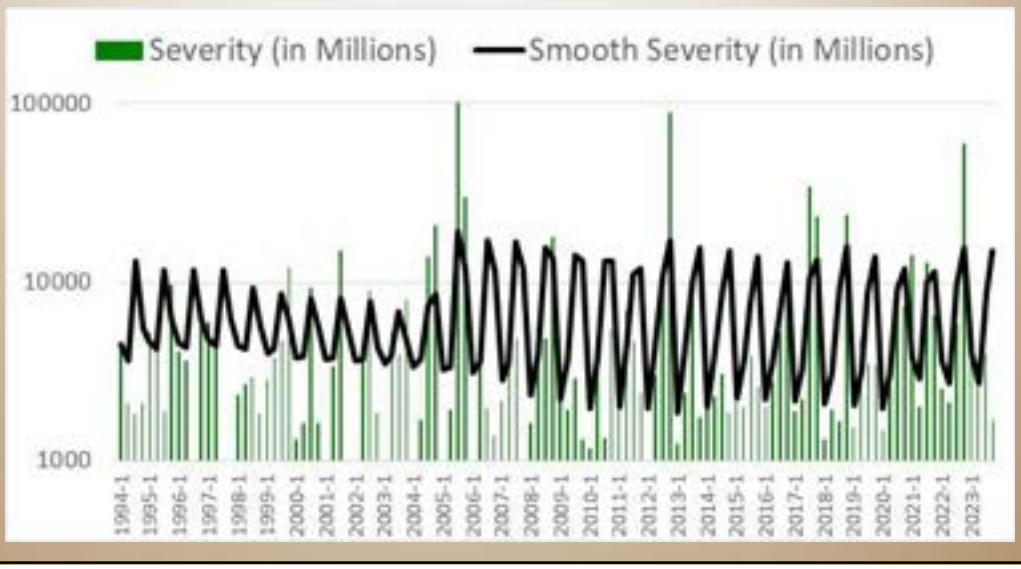


Casualty Actuarial Society

33

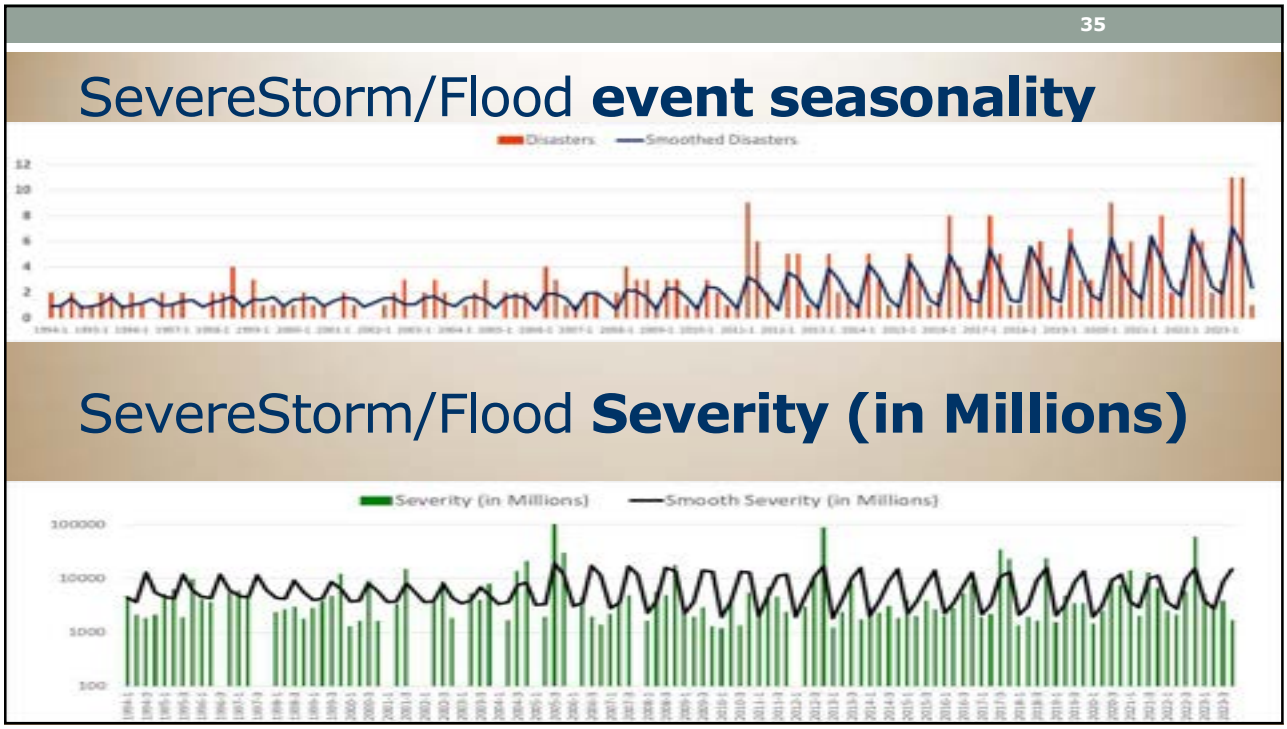
34

CONUS BDD Average Severity – 120 seasons

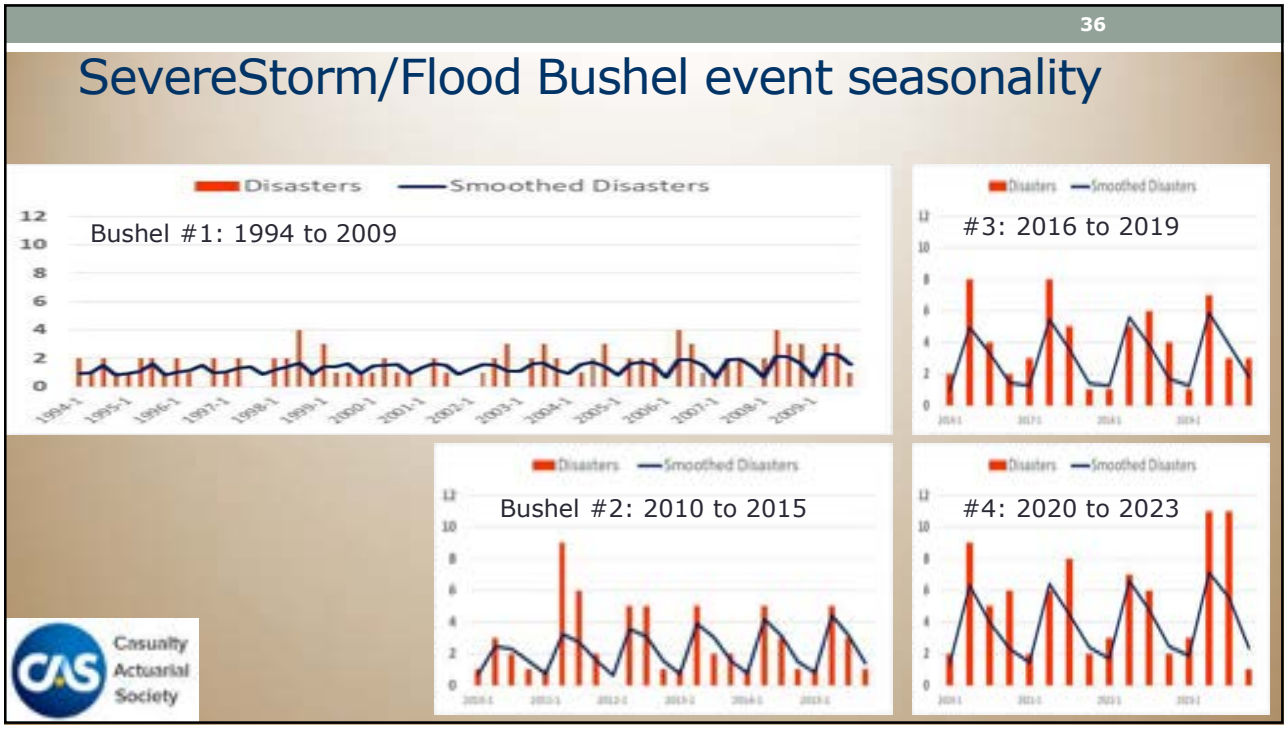


Casualty Actuarial Society

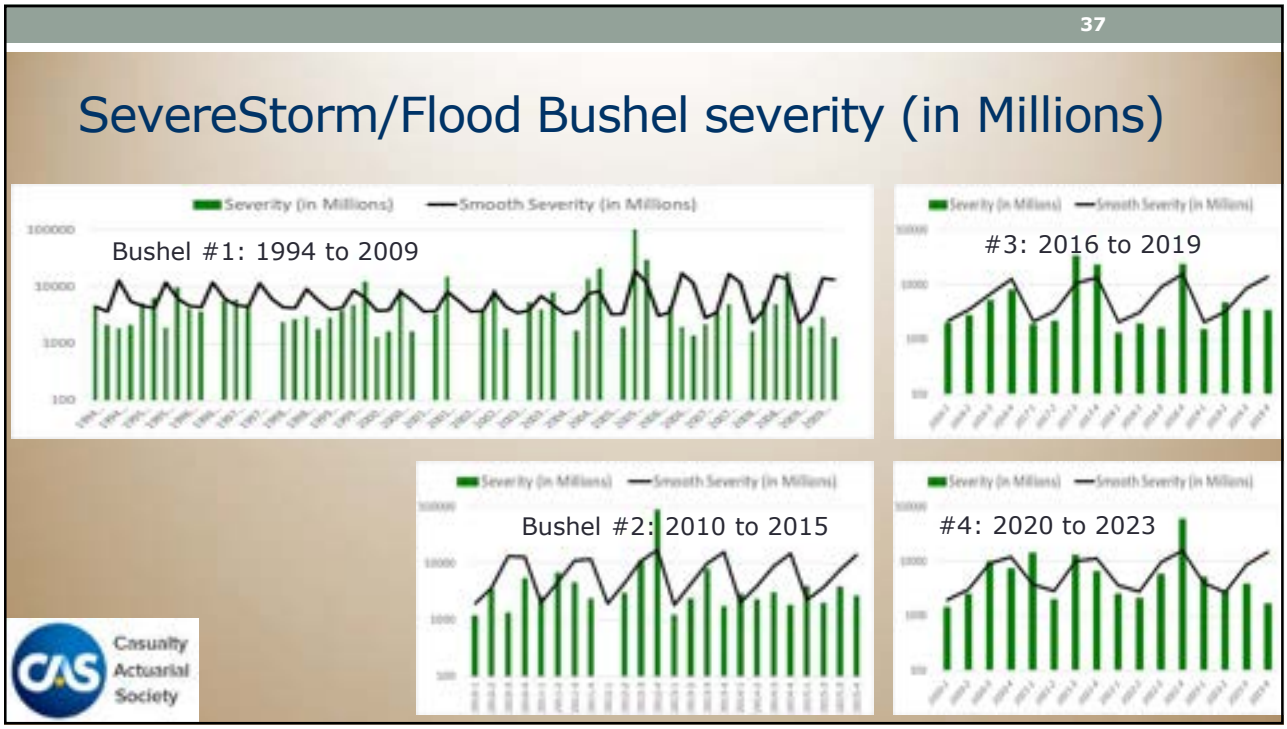
34


35
SevereStorm/Flood event seasonality
Disasters
Smoothed Disasters
SevereStorm/Flood Severity (in Millions)
Severity (in Millions)
Smooth Severity (in Millions)

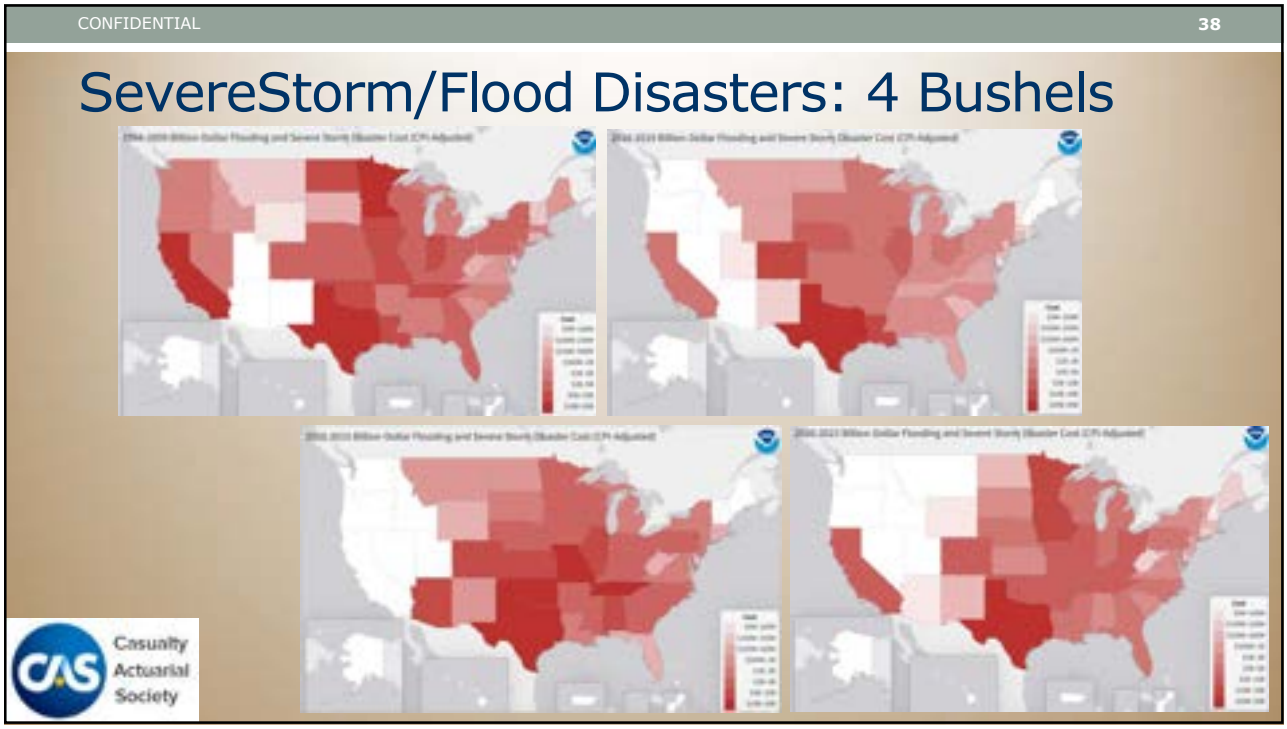
35


36
SevereStorm/Flood Bushel event seasonality
Disasters
Smoothed Disasters
Bushel #1: 1994 to 2009
#3: 2016 to 2019
Bushel #2: 2010 to 2015
#4: 2020 to 2023
Casualty Actuarial Society

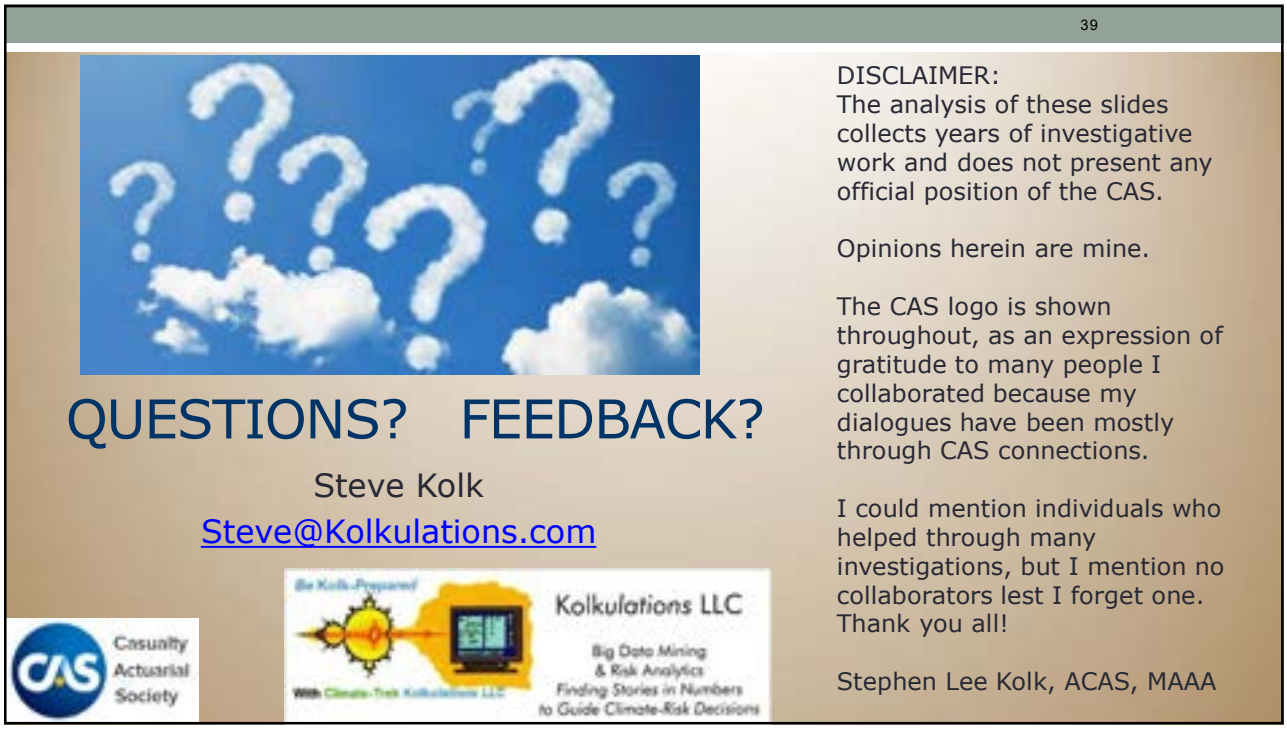
36


37
SevereStorm/Flood Bushel severity (in Millions)
Severity (in Millions)
Smooth Severity (in Millions)
Bushel #1: 1994 to 2009
#3: 2016 to 2019
Bushel #2: 2010 to 2015
#4: 2020 to 2023
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37


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38
SevereStorm/Flood Disasters: 4 Bushels
Casualty Actuarial Society

38


39
QUESTIONS? FEEDBACK?
Steve Kolk
Steve@Kolkulations.com
Kolkulations LLC
Big Data Mining
& Risk Analytics
Finding Stories in Numbers
to Guide Climate-Risk Decisions
Casualty
Actuarial
Society
DISCLAIMER:
The analysis of these slides collects years of investigative work and does not present any official position of the CAS.
Opinions herein are mine.
The CAS logo is shown throughout, as an expression of gratitude to many people I collaborated because my dialogues have been mostly through CAS connections.
I could mention individuals who helped through many investigations, but I mention no collaborators lest I forget one. Thank you all!
Stephen Lee Kolk, ACAS, MAAA

39

Draft: 3/27/25

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Indianapolis, Indiana
March 24, 2025

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou and Tricia Dave (CT); Jane Nelson (FL); Kevin Clark, Carrie Mears, and Mike Yanacheak (IA); Matt Cheung (IL); Roy Eft (IN); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Tadd Wegner (NE); Jennifer Li (NH); Bob Kasinow and William B. Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Doug Stolte and Dan Bumpus (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI). Also participating were: Sanjeev Chaudhuri (AL); Seong-min Eom (NJ); and John Tudino (RI).

1. Adopted its Feb. 11, 2025, and Oct. 22, 2024, Minutes

Barlow said the Working Group met Feb. 11, 2025, and Oct. 22, 2024. During its Feb. 11, 2025, meeting.

Botsko made a motion, seconded by Chou, to adopt the Working Group's Feb. 11, 2025 (Attachment Five-A) and Oct. 22, 2024 (*see NAIC Proceedings – Fall 2024, Capital Adequacy (E) Task Force, Attachment Four*) minutes. The motion passed unanimously.

2. Heard an Update from the Academy on the Structured Securities RBC Project

Stephen Smith (Academy) presented a collateralized loan obligation (CLO) C-1 update (Attachment Five-B). He used the visual aids on the data flow diagram page to explain how the Academy tracks and presents the project's progress. Deriving comparable attributes and C-1 factors (the far-right side of the diagram) will be the ultimate deliverable of the project. Smith went on to provide updates on the three processes in progress. The first process is the collateral model. Smith said the American Council of Life Insurers (ACLI) has been very supportive in liaising between Moody's Ratings (Moody's) and the Academy to obtain access to the C-1 model. The second process is CLO dynamics. Smith said the NAIC Structured Securities Group (SSG) has been supportive by sharing its work on the CLO waterfall structure software. The third process is the C-1 methodology. Smith said all the bullets listed on the C-1 methodology slide represent decision-making points that need to be stepped through in order to determine C-1 factors.

Mears asked for clarification on the "potential of inner vs. outer loops" decision point. Smith compared the modeling of losses for corporate debts and CLOs. He said that unlike corporate bonds, for which credit events automatically bring about defaults, CLOs behave differently. Credit deterioration of the underlying bank loans does not automatically bring about technical default of the CLOs. Instead, the CLOs would stop paying interest in cash but payment-in-kind (PIK). As the Academy deliberates at what point credit events occurred for capital purposes, both outer and inner loops are considered. For the outer loop, the Academy could have theoretically considered 10,000 different economic scenarios in which the underlying bank loans performed differently. The inner loop would require the Academy to use the cash flows associated with each of the 10,000 scenarios and model the potential impairments based on statutory accounting guidance stipulated by *Statement of Statutory Accounting Principle (SSAP) No. 43—Asset-Backed Securities*, which also requires modeling cash flows. The Academy is looking into the possibility of using an inner loop approach, which would allow the Academy to model impairments rather than defaults.

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Slutker asked what level of risk is being assumed for the reserve level when developing capital charges. Smith said the "risk premium" decision point contemplates this question, but the Academy has not been fully vetted on the issue.

Barlow recognized that the Academy and other parties have put a lot of work into this project. He emphasized the desire to keep the project moving along expediently and said he would like to know as soon as possible if any parties involved encounter roadblocks. He said the Working Group will offer help to the extent possible.

3. Received Comments on the ACLI's RBC Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings

Barlow said the Working Group had previously exposed the ACLI's RBC principles for bond funds presentation and the NAIC's memorandum of bond funds reported in 2023 annual statement filings for a 24-day public comment period that ended March 7. Three comment letters were received.

Eric Hovey (Payden & Rygel) presented Payden & Rygel's comment letter (Attachment Five-C). Hovey said Payden & Rygel supports the conclusion reached in the ACLI's presentation. Payden & Rygel manages two of the three funds listed on the NAIC Fixed Income-Like SEC Registered Fund List. He said his insurer clients appreciate the clarity and information the Security Valuation Office (SVO) designation provides. He said he believed that should the alignment of RBC treatment among different types of SVO-identified bond funds be effected, more funds will seek SVO designations, and insurers, stakeholders, and regulators will welcome this additional transparency. Hovey added that Payden & Rygel would appreciate this alignment project being applied consistently across three lines of businesses.

Bridget Hagan (Blackstone Credit and Insurance—BXCI), on behalf of the Alternative Credit Council (ACC), presented the ACC's comment letter (Attachment Five-D). Hagan said the ACC supports the harmonization of capital treatments applied to bond mutual funds and bond exchange-traded funds (ETFs), given the similarity in credit quality, risk profile, and duration exposure.

Helen Remeza (PineBridge Investments—PineBridge) presented PineBridge's comment letter (Attachment Five-E) expressing support for striving for consistency in the treatment of the RBC for bond funds, regardless of legal form. Remeza highlighted that SVO-identified funds are an important asset type among non-life insurers, especially smaller insurers. As such, PineBridge advocated that any changes to harmonize RBC treatment across fund types should be made available to both life and non-life insurers.

Barlow said there is currently no formal RBC blank proposal drawn up, and he sought the Working Group members' perspective on the proposal's scope, for example, whether it should apply to life insurance only or impact all three lines of businesses. Mears supported the latter. Botsko said assessing and documenting the justifications is worthwhile regardless of whether the Working Group landed on consistent treatment or inconsistent treatment among the three lines of business. Drutz seconded. Chou gave an example wherein RBC factors for residuals are different between life and non-life filers, and the justification is that the Academy has not concluded the study.

With no objection from the Working Group members, NAIC staff were directed to develop a formal proposal, starting with the life RBC formula, with an understanding it would not be expected for 2025 adoption.

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4. Received Updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group

Mears said the Valuation of Securities (E) Task Force oversees the CLO modeling and designation process by the SSG, which has collaborated with the Academy. The Task Force is also developing guidance around receiving private letter (PL) rating rationale reports.

Bruggeman gave an update on projects taken on by the Statutory Accounting Principles (E) Working Group that may impact the RBC working groups. First, he said the bond definition became effective Jan. 1, 2025. A prior referral was sent to the health and property/casualty (P/C) RBC groups to inquire about non-bond debt securities as well as capital/surplus notes reported on Schedule BA. As life entities have the ability to influence RBC for these items with SVO-assigned designations, industry has inquired again about that potential for non-life entities. Next, revisions to statutory guidance for investments in tax credits also became effective Jan. 1, 2025. This will also have potential RBC impacts as the reporting and RBC lines have been changed. A key aspect is that the "Federal Guaranteed" tax credit line was eliminated. As such, companies that previously reported their structures in that line will move to other reporting lines and incur higher RBC.

In regard to forthcoming projects, the Statutory Accounting Principles (E) Working Group will likely adopt more granular reporting for collateral loans. Bruggeman said it is up to the RBC groups' discretion whether a more granular approach should be adopted for collateral loans' RBC charges. Additionally, two proposals entertained by the Statutory Accounting Principles (E) Working Group are related to modified coinsurance (modco)/funds withheld assets. The first proposes a new schedule to provide details of the modco/funds withheld assets. The second proposes that any modco/funds withheld assets being restricted for the benefit of the cedants are being flagged for reporting purposes. These proposals may impact the modco/funds withheld adjustments in the life RBC framework. Lastly, the Statutory Accounting Principles (E) Working Group has a project to review the "investment subsidiary" reporting that occurs for subsidiary, controlled, and affiliated (SCA) assets on D-6-1, which results in a company-calculated RBC look-through in the RBC formula. The concept of an investment subsidiary was eliminated from statutory accounting in 2005, but the reporting guidance was not eliminated. As there has been an increase in the use of this reporting/RBC look-through, the Statutory Accounting Principles (E) Working Group is reviewing it and may ultimately propose eliminating this reporting/RBC provision. The Statutory Accounting Principles (E) Working Group has identified that it seems companies are using this reporting/RBC option to report residential mortgage loans held in trust, so a review of accounting/reporting for those structures is anticipated to occur before proposing to remove the reporting/RBC for investment subsidiaries.

5. Discussed Other Matters

Barlow said NAIC staff have pulled residual tranches or interests reported on 2024 annual statements and RBC filings. He said it appears that a regulator-only call is warranted to discuss the analysis as it pertains to company-specific information. NAIC staff are going to schedule the call, and comments and feedback are welcome as to whether this should be a joint call with other groups (e.g., Statutory Accounting Principles (E) Working Group, Valuation of Securities (E) Task Force, etc.).

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2025-1-Spring/IRE/RBCIREWG 03-24-25 SPGNM Minutes TPR'd.docx

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Draft: 2/18/25

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
February 11, 2025

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met Feb. 11, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Ray Spudeck (FL); Kevin Clark and Mike Yanacheak (IA); Matt Cheung (IL); Roy Eft (IN); Fred Andersen (MN); William Leung (MO); Tadd Wegner (NE); Jennifer Li (NH); Bob Kasinow (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Doug Stolte (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI).

1. Heard an Update from the Academy on the Structured Securities RBC Project

Steve Smith (American Academy of Actuaries—Academy) started by referring to the key milestones for the project (Attachment Five-A1). Smith said the new work in 2024 and 2025 that he would like to report to the Working Group included the acquisition of collateralized loan obligation (CLO) data from Moody's Ratings (Moody's), a planned approach for modeling collaterals within the CLOs, and the use of the scenario compression approach.

Smith said Moody's database of CLOs is comprehensive. Smith highlighted the breadth of Moody's dataset, stating that it has 3,309 deals, 1,871 of which are currently owned by U.S. insurers and modeled by the NAIC's Structured Securities Group (SSG). By analyzing this dataset, the Academy's goal is to identify and assess candidate comparable attributes that can reliably predict the risks of CLOs. Smith named some examples of the attributes in the dataset, including ratings of the CLO tranches as well as ratings of the underlying collaterals, subordination, amount of leverage, etc.

Smith said there is a key difference between the SSG's modeling approach and the Academy's collateral modeling approach. The SSG's approach is used for designation assignment purposes and strives to achieve consistency in capital charges upon either ownership of a vertical slice of the CLO versus ownership of the underlying collaterals. The Academy's approach strives to achieve consistency in methodologies between corporate bonds' C-1 factors derivation and CLO's factors derivation. Smith then walked the Working Group through how the C-1 Bond model is used to produce loss distribution of the collateral pool of a CLO and how the pool-level loss distribution feeds into waterfall structure software to produce tranche-level loss distribution, which is then used to determine C-1 factors for the respective CLO tranches. Smith said one significant difference between corporate bonds and bank loans (CLO collaterals) accounted for in the modeling is that the former are unsecured while the latter are secured.

Smith continued to explain that the Academy is exploring the idea of closed-form approximation of loss distribution in order to make the collateral model as transparent, simple, and understandable as possible. The idea is to convert the stochastic model of the bond engine into a closed-form approximation (i.e., a probability distribution curve that approximates the actual output of the bond model). Smith highlighted another noteworthy aspect of the Academy's modeling approach: that the Academy is studying the time pattern of losses for the CLO debt tranches such that the model would not simply assume level losses over time.

Kristin Holzhauer (Northwestern Mutual) asked whether the Academy uses the entire CLO dataset or just the CLOs that insurers invested in to generate the closed-form approximation. Smith said the Academy will ensure the study is as relevant to the insurance industry as possible. He said if there are noticeable differences between the entire universe of CLOs versus those CLOs that insurers invested in, those differences will be reportable findings in the Academy's report.

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Smith went on to explain the scenario compression approach. In the risk-based capital (RBC) framework, the standard approach to building conditional tail expectation (CTE) risk measure is to build a stochastic model that runs 10,000 scenarios. In practice, it is not feasible to run thousands of collateral loss scenarios due to waterfall structure software limitations. To overcome this, the Academy proposed to use a scenario compression approach in which tail collateral loss scenarios are grouped into discrete ranges, where the average loss of each range is used to run through the waterfall structure software. The Academy expected 15–25 scenarios generated. Should the Working Group endorse CTE 90 as a risk measure, the Academy plans to use the worst 15%–20% of loss scenarios. Yanacheak asked if the Academy plans to validate the reasonableness of the compression. Smith said the Academy plans to do so.

Smith said the work that the Academy needs to embark on in the future includes: 1) acquisition of the C-1 bond factor model; 2) parameterization of the CLO cash flow model, a step in which the Academy needs to make assumptions while using the waterfall structure software, will leverage the work of the SSG; however, Smith would not preclude potential differences between the SSG's and the Academy's parametrization; 3) analysis of the results of the conversion of tranche-specific CLO cash flows into tranche-specific base factors, through which the Academy might be able to identify comparable attributes for factor generations; 4) updating the diversification and concentration framework. Smith said considerations like the definition of "issuers," inherent diversification in collaterals within CLOs, etc., will present new considerations to update the current portfolio adjustment factor mechanism. The Academy may also need to consider asset class concentration but will develop a reasonable proposal that balances precision with parsimony.

Barlow asked if the four items presented by Smith are the only outstanding items and whether there can be a way to track progress to help the Working Group manage expectations of when a final product is available. Smith responded that the four workstreams are not necessarily dependent on one another, and some can be worked on in parallel. Smith agreed to track the progress and said he believed that once the C-1 bond factor model is obtained, the work progress is expected to be accelerated. He also cautioned that the biggest contingency is that if the collateral modeling approach does not work after acquiring the C-1 bond factor model, the other workstreams may need to rethink things, so there are still dependencies. Smith said he plans to provide another update at the Spring National Meeting in Indianapolis.

Felix Lurye (Guardian Life) asked if the Academy will expect the end results to be more like the sum-of-the-parts approach to make sure C-1 factors of the underlying bank loans are redistributed to the CLO tranches. Smith said the Academy would monitor the potential RBC arbitrage but would not intentionally apply the sum-of-the-parts approach.

Lorenzo Cupido (Prudential Financial) asked if the collateral modeling approach will differentiate between collateral types (e.g., broadly syndicated bank loans versus middle market bank loans versus private credits). Smith said his presentation only mentioned adjustment for seniority of bank loans, but collateral types should also be taken into account.

2. Discussed the Status of the Fund Review Project and Exposed the ACLI's RBC Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in the 2023 Annual Statement Filings

Barlow said the American Council of Life Insurers' (ACLI's) presentation (Attachment Five-A2) resulted from the Working Group's direction to narrow the scope of the Comprehensive Fund Review to three specific types of bond funds: 1) bond exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered bond mutual funds; and 3) private bond funds. The three types of funds are not treated equally for current RBC purposes. The ACLI's presentation included candidate guiding principles to help determine if work is needed to

align the RBC treatment. To facilitate discussion, the NAIC staff put together the amount of respective fund types reported in the 2023 annual statement filing (Attachment Five-A3).

Marc Altschull (ACLI) said that ACLI members applied the candidate principles in the presentation and concluded that the SEC-registered bond mutual funds should receive the same RBC treatment as bond ETFs and private bond funds. Specifically, they should receive a bond RBC charge based on the Securities Valuation Office's (SVO's) weighted average rating factor (WARF) methodology. Clark requested more details about the SVO's WARF methodology. Specifically, he asked if every investment within the bond funds needs to be rated in order for the SVO to apply WARF. Clark also asked whether property and casualty (P/C) insurers' trade group can weigh in on this proposal, as his understanding is that bond RBC treatment for bond funds is not currently available to P/C and health insurers.

Barlow clarified that this presentation is not a proposal itself. He said that if the Working Group desires one, a formal RBC proposal needs to be submitted for the Working Group's consideration.

Altschull said he might have already received the American Property Casualty Insurance Association's (APCIA's) position on the presentation, but he has to confirm. He also pointed out that bond mutual funds are allowed to be filed for SVO designations, but those designations would not impact RBC calculations.

Mike Reis (Northwestern Mutual) recalled that the SVO's *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) has a robust write-up on qualifications for applying WARF methodology. He said he would follow up with the SVO to confirm the methodology for unrated underlying investments within the funds.

Barlow exposed the ACLI's presentation, and the NAIC's Memorandum of Bond Funds Reported in the 2023 Annual Statement Filings for a 24-day comment period ending March 7.

3. Discussed Other Matters

Barlow said the Working Group plans to meet in person at the Spring National Meeting. The meeting is scheduled for 90 minutes. It will commence with the Working Group's session, followed immediately by the Life Risk-Based Capital (E) Working Group's session.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2025-1-Spring/IRE/RBCIREWG 02-11-25 Minutes TPR'd.docx

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CLO C-1 Update to Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)

February 11, 2025

Steve Smith, MAAA, FSA, CFA
Chairperson, Academy C-1 Subcommittee

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Key Work Completed so Far

- 2022: CLO overview
- 2023: ABS RBC principles
- 2024–2025:
  - Acquisition of Moody's CLO data
  - Collateral modeling approach
  - Scenario compression approach

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Completed: Acquisition of Moody's CLO Data

- Candidate comparable attributes
- Tranche-level data
- Deal-level data
- Collateral details
- Examples:
  - Tranche/collateral ratings (by CRP)
  - Overcollateralization
  - Tranche thickness

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Completed: Collateral Modeling Approach

- Prioritized consistency with C-1 bond factors
- Used C-1 bond model to produce loss distribution
- Adjusted for seniority of loans vs. bonds and any other known, relevant differences
- Considered closed-form approximation of loss distribution
- Stressed the timing of losses

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Completed: Scenario Compression Approach

- Could not feasibly run thousands of collateral loss scenarios through CLO cash flow model
- Could not use only a single scenario due to the cliff-shaped loss distribution of CLOs
- Instead, we will subdivide the tail of the collateral loss distribution into several discrete ranges, where the average loss of each range is run through the CLO cash flow model

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Current/Remaining Work

- Acquisition of C-1 bond factor model or results, allowing for:
  - Collateral modeling specification/approximation
  - Scenario compression specification
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- Conversion of CLO cash flows into losses for C-1 capital, allowing for:
  - Identification of comparable attributes
  - Development of base factors
- Diversification & concentration

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ACLI
Financial Security for Life

RBC Principles for Bond Funds

December 2024

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Background

- Operating under a regulatory regime where funds with slightly different structures but same economic risks receive different RBC treatment
- (9/27/2017) VOSTF directed NAIC staff to develop a comprehensive proposal to ensure consistent treatment for investments that involved funds that invest in bond portfolios (history included in Appendix)
- (5/10/2019) VOSTF requested that CATF consider formally integrating the comprehensive instructions for mutual funds recently adopted for the P&P Manual into the NAIC RBC framework
- ACLI has agreed with RBC IRE to begin looking at three types of bond funds that get different treatment in RBC calculation. ACLI has been looking at these to determine whether the risk profiles are similar or different to warrant different treatment for different types of bond funds. While this work focuses on these three types of bond funds, ACLI is identifying principles that can be used to expand treatment from these types of bond funds to other similar bond fund types.

2

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Focus on Bond Funds – Current State

	Bond Exchange Traded Funds (ETF)[1]	SEC Registered Bond Mutual Funds	Private Bond Funds[1]
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Equity RBC	Bond RBC
RBC Charge Methodology	SVO WARF	30% equity charge (can file and SVO can apply WARF but cannot be used for RBC)	SVO WARF
RBC Asset Concentration Factors	Excluded[2]	Excluded[2]	Look through for inclusion
SIRI[3] Top 10 Exposure Disclosure	Excluded[2]	Excluded[2]	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely

[1] For funds meeting SVO criteria
[2] For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]
[3] Supplementary Investment Risks Interrogatories

3

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Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF)[1]	SEC Registered Bond Mutual Funds	Private Bond Funds[1]
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	**Bond RBC**	Bond RBC
RBC Charge Methodology	SVO WARF	**SVO WARF**	SVO WARF
RBC Asset Concentration Factors	Excluded[2]	Excluded[2]	Look through for inclusion
SIRI[3] Top 10 Exposure Disclosure	Excluded[2]	Excluded[2]	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
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[1] For funds meeting SVO criteria
[2] For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]
[3] Supplementary Investment Risks Interrogatories

4

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Assumptions / Constraints for Principles

- Develop principles for consistent RBC treatment for Bond ETFs, Bond Mutual Funds, and Bond Private Funds that bear substantially the same economic risks regardless of legal form.
- The accounting for the aforementioned Bond Funds will/should not be changed because each different fund type is governed by different SSAPs.

5

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Application of Principles

- Candidate principles developed to evaluate and ensure consistent RBC treatment between various fund types where the underlying holdings are bonds and currently meet the criteria for the SVO WARF methodology.
- Candidate principles could be applied for substantially similar bond fund investments to Bond ETFs, Bond Mutual Funds, and Bond Private Funds (currently meet the criteria for SVO WARF methodology) that the SVO could also apply their WARF as they become known.
- Candidate principles are intended to focus on the C-1 factor exclusively (i.e., excludes concentration factors).
- Principles could be leveraged for addressing similar situations where industry or regulators note similar significantly inconsistent RBC treatment for substantially similar investments. While the principles can potentially be leveraged, they will need to be tailored, as other fund types are likely not subject to the SVO WARF methodology.

6

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Candidate Principles

1. Meets qualifications for SVO to apply WARF methodology
2. RBC is based on underlying economic risk
   - Regardless of accounting method applied, fund risk depends on the collateral pool
   - Differences between fund types are considered immaterial where such differences are deemed not to contribute risks captured by RBC (e.g., illiquidity is not measured by C-1)
3. Economic risk of fund investment is materially similar to the collateral pool
   - There are no support tranches
   - All fund investors have equal ownership status (i.e., no fund investors are more senior nor junior than others)
4. Included within an SSAP in AP&P Manual

7

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Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF)[1]	SEC Registered Bond Mutual Funds	Private Bond Funds[1]
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RBC Charge Methodology	SVO WARF	**SVO WARF**	SVO WARF
RBC Asset Concentration Factors	Excluded[2]	Excluded[2]	Look through for inclusion
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AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

[1] *For funds meeting SVO criteria*
[2] *For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]*
[3] *Supplementary Investment Risks Interrogatories*

8

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Key Questions for Regulators

- Which candidate-principles do regulators support?
- Are there additional principles not outlined herein that also ought to be incorporated into RBC for funds?

9

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Appendix: History of VOSTF Treatment of Funds Investing in Bonds

- 1991 – Money market mutual funds that hold short-term U.S. Treasuries - exempted from reserve
- 1992 – Funds holding U.S. direct and full faith and credit obligations - exempted from reserving
- 1992 – Funds holding high quality corporate bonds & U.S. Government obligations - reserve as NAIC 1 bonds
- 1995 – Short-term bond funds - holding high quality corporate & U.S./GSO obligations) - Schedule D; market value & reserved as bonds for AVR and RBC
- 2003 – Exchange Traded Funds that held bonds – report as bonds
- 2005 – BA assets with fixed income characteristics can be assigned NAIC Designations
- 2017 – SVO authorized to assign NAIC Designations to private Schedule BA funds, joint ventures or partnership interests if underlying investments are fixed-income like to align with Annual Reporting Instruction

Source: September 21, 2018 Referral to the Capital Adequacy Task Force – Comprehensive Fund Proposal from VOSTF

10

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: January 6, 2025

RE: Certain Bond funds reported in 2023 Annual Statement Filings

Background

On October 22, 2024, the Working Group met and discussed the status of the Working Agenda #2 & #4 (collectively the "Fund Review Project"). Representatives from the American Council of Life Insurers (ACLI) proposed, and the Working Group agreed, to narrow the scope of the project with the intent to achieve convergence in RBC treatment among three types of funds when they predominantly invest in bonds and receive SVO-assigned designations: 1) exchange-traded funds (ETFs), 2) U.S. Securities and Exchange Commission (SEC)-registered mutual funds; and 3) private funds.

NAIC staff was directed to summarize herein the amount of respective fund types reported on insurers' 2023 annual statement filings to facilitate the Working Group's discussions.

	Bond Exchange Traded Fund (SVO-identified) Schedule D – part 1 Bonds Line 1619999999 **(as % of Total Invested Assets)**	**SEC Registered Bond Mutual Funds (SVO-identified)** Schedule D – part 2 – Section 2 Common Stock Line 5319999999, 5519999999, 5719999999 **(as % of Total Invested Assets)**	**Private Bond Funds (SVO-identified)** Schedule BA, Part 1, Line 079999999, 0899999999, 13999999, 14999999, 15999999999, 1699999999 Note A **(as % of Total Invested Assets)**	**Total Invested Assets** 2023 Asset Page Line 12
2023 Life	$5,844,611,923 **(0.11%)**	$95,524,695 **(0.00%)**	$5,858,319,676 **(0.11%)**	$5,470,188,985,349
2023 P/C	$4,934,503,172 **(0.19%)**	$1,652,371,654 **(0.06%)**	$905,395,147 **(0.03%)**	$ 2,662,293,397,830
2023 Health	$1,292,501,879 **(0.36%)**	$877,352,361 **(0.24%)**	$118,990,522 **(0.03%)**	$360,699,408,453

Note A, per 2023 AVR instruction, "… the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0799999 and 0899999 **and the portion of Lines 1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to bonds) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*** …" should be reported on Line 22 through 28 of AVR Equity Component table, thereby afforded RBC charge based on NAIC Designation. As there is no AVR reporting for P/C and Health, the statistics are obtained directly from lines 0799999, 0899999,1399999, 1499999, 1599999, and 1699999 of Schedule BA, Part 1. As such, overstatement is expected.

Please contact NAIC Staff of Risk-Based Capital Investment Risk and Evaluation (E) Working Group with any questions.

Cc: Julie Gann, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

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CLO C-1 Update to Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)

March 24, 2025

Steve Smith, MAAA, FSA, CFA
Chairperson, Academy C-1 Subcommittee

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2



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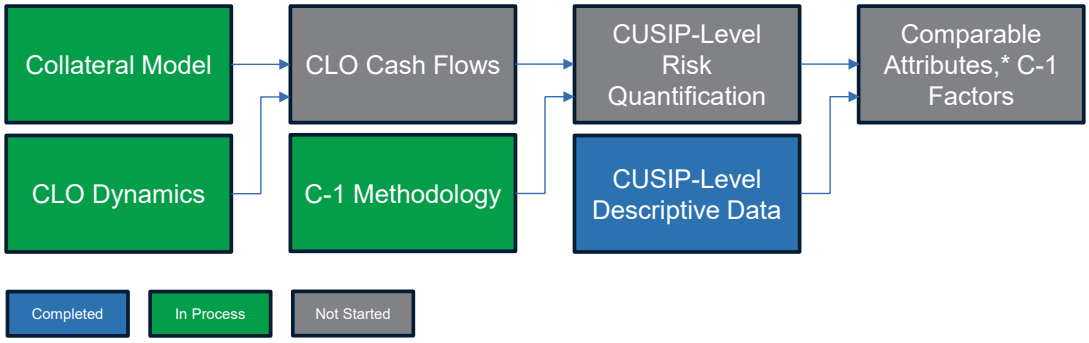
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Data Flow Diagram



*This analysis is to assess the viability of comparable attributes. If deemed unviable, the result would be individual asset modeling.

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Collateral Model

- Model credit losses on the collateral pool of bank loans
- Objective: Consistency with C-1 bond factors
- Method: Use the same loss model that underlies C-1 bond factors
  - With some potential differences, e.g. secured vs. unsecured
- Status: Working with the ACLI who, with help from Moody's, developed a model that may be helpful as we explore various scenarios
- Once the model is obtained, reasonable simplifications will be explored (e.g., a closed-form approximation for credit losses)

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CLO Dynamics

- Distribution of collateral losses through the CLO waterfall structure
  - Three-way agreement in place between Academy, Moody's, and NAIC for SSG to run Moody's CDOnet software on Academy's behalf
  - Establishing parameterization and settings for CDOnet
- Model to support estimation of debt and residual tranche factors

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C-1 Methodology

How to use CLO cash flows to determine C-1 requirements

- Discounting
- GPVAD (greatest PV of accumulated deficiency) methodology
- Potential of inner vs. outer loops
- Risk premium
- Scenario compression
- Alignment with statutory accounting
- Treatment of PIK

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Key Work Completed so Far

- 2022: CLO overview
- 2023: ABS RBC principles
- 2024–2025:
  - Acquisition of Moody's CLO data
  - Collateral modeling approach
  - Scenario compression approach

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Completed: Acquisition of Moody's CLO Data

- Candidate comparable attributes
- Tranche-level data
- Deal-level data
- Collateral details
- Examples:
  - Tranche/collateral ratings (by CRP)
  - Overcollateralization
  - Tranche thickness

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- Used C-1 bond model to produce loss distribution
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- Stressed the timing of losses

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Completed: Scenario Compression Approach

- Could not feasibly run thousands of collateral loss scenarios through CLO cash flow model
- The sole use of a single scenario could not be done, due to the cliff-shaped loss distribution of CLOs
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    - The average loss of each range will then be run through the CLO cash flow model

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Current/Remaining Work

- Acquisition of C-1 bond factor model or results, allowing for:
  - Collateral modeling specification/approximation
  - Scenario compression specification
- Parameterization of CLO cash flow model
- Conversion of CLO cash flows into losses for C-1 capital, allowing for:
  - Identification of comparable attributes
  - Development of base factors
- Diversification & concentration

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Questions

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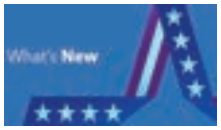
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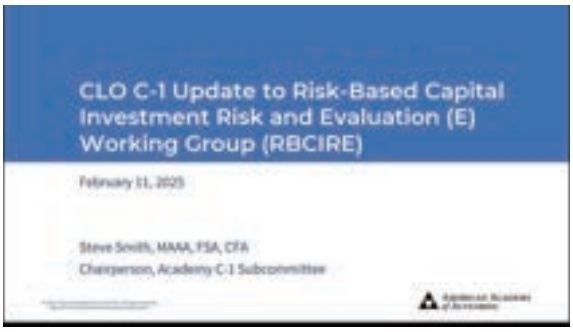
Actuary Voices Podcast

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Appendix. February 11, 2025 RBCIRE Update

https://www.actuary.org/sites/default/files/2025-02/Life-Presentation-CLORBCUpdate.pdf


CLO C-1 Update to Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)

February 11, 2025

Steve Smith, MAAA, FSA, CFA
Chairperson, Academy C-1 Subcommittee

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March 5, 2025

Philip Barlow, Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Members of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Attn: Maggie Chang, NAIC – mchang@naic.org

Re: The American Council of Life Insurers' (ACLI's) RBC Principles for Bond Funds Presentation and The NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings

Dear Mr. Barlow and Task Force Members,

We appreciate the opportunity to comment on the ACLI's RBC Principles for Bond Funds and The NAIC's Memorandum of Bond Funds, with a March 7, 2025 deadline.

On behalf of Payden & Rygel and our insurance clients, **we support the "Future State after Applying Principles" and the relevant changes to RBC Charge and RBC Charge Methodology outlined in the ACLI presentation**.

Payden & Rygel manages two mutual funds currently receiving NAIC Designations and listed on the NAIC Fixed Income-Like SEC Registered Funds List. In addition, US regulated insurers invest in multiple other Payden & Rygel mutual funds that do not currently receive NAIC Designations. Lastly, our clients also utilize private fund structures that have NAIC Designations from the Securities Valuation Office (SVO), and are reported on Schedule BA, but are required to take higher capital charges since they fall into the P&C RBC formula.

Each of these are examples of how the exact same portfolio of bonds or preferred stock could currently receive three different RBC charges due to being held in different legal forms. This does not reflect actual investment risk and reduces clarity for regulators to assess the Asset Risks of an insurer. We have submitted the two Fixed Income-Like SEC Registered Funds to receive NAIC Designations for the purpose of increasing clarity for insurers, as well as their policyholders, investors, counterparties, and regulators. Creating a consistent RBC methodology would likely entice additional fund submissions and improve clarity further.

Additionally, punitive RBC factors applied to bond and preferred stock mutual funds and private funds result in inefficient investments from insurers, particularly those with fewer total investable assets. Mutual funds and private funds allow for greater diversification of investment risk than many insurers can achieve with purchasing individual securities, however an RBC

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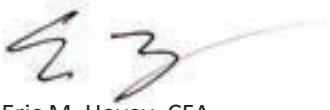
charge ~15x greater is an impediment. Improving investment efficiency can also improve an insurer's operations, access to liquidity, and overall financial strength.

RBC factors are already being utilized by the Life Insurance RBC formula for Schedule BA assets that have received NAIC designations from the NAIC SVO. While each RBC model should be developed separately, the Life Risk-Based Capital (E) Working Group has determined that the current RBC factors are appropriate to apply to bond funds. However, that is not currently permitted for P&C and Health companies.

In regards to the The NAIC's Memorandum of Bond Funds, an impact analysis would likely underrepresent the interest in the streamlined RBC approach. The inconsistency of the current regulatory framework favors certain ETFs and individual bonds and causes insurers to avoid less capital-favorable investments. We would refer the Working Group to studies* documenting the increase in ETF investment interest from insurance companies after they were permitted for Schedule D-1 reporting and systematic value accounting.

Thank you for your consideration and efforts towards the goal of ensuring consistent treatment for investments in funds that only hold bonds across all the schedules, for all insurer types.

Best regards,



Eric M. Hovey, CFA
Director, Payden & Rygel

* Greenwich Associates and State Street Global Advisors. "Insurance Company Investments in ETFs: Accelerating Growth Ahead." *Insurance AUM Journal.* Q1 2019: 14-19. and Stokes, Kelsey & Ganti, Anu R. "ETFs in Insurance General Accounts – 2024." *S&P Down Jones Indices*. May 2024.

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March 6, 2025

Chairman Phil Barlow
NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Via Electronic Submission

Subject: Comment Letter on the Proposed Principles for Bond Funds

Dear Chairman Barlow and Members of the RBC-IRE Working Group,

The Alternative Credit Council[1], the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to comment on the ACLI's proposed RBC Principles for Bond Funds ("bond fund principles").[2]

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

[2] National Association of Insurance Commissioners, *RBC Principles for Bond Funds* (February 2025), available at https://content.naic.org/sites/default/files/inline-files/Attn%202%20Principles%20for%20Bond%20Funds%20%201-9-2025%20%28ACLI%20revised%20deck%29.pdf.

AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.



We are writing to express strong support for the proposed bond fund principles outlined in the exposure draft. These principles address inconsistencies in the risk-based capital (RBC) treatment of bond funds, which arise due to differences in legal structures and accounting standards despite the economic risks being fundamentally similar. This initiative is commendable as it seeks to enhance regulatory consistency, economic risk alignment, and capital adequacy across bond exchange-traded funds (ETFs), SEC-registered bond mutual funds, and private bond funds.

The proposed principles emphasize that RBC should reflect the underlying economic risk of the collateral rather than the legal form or accounting method of the fund. This approach is crucial because the economic risk of a bond fund is primarily determined by the risk profile of its underlying collateral pool. The principles ensure a more consistent and accurate risk measurement by proposing a unified RBC treatment for all bond fund types compatible with the Securities Valuation Office's Weighted Average Rating Factor ("SVO WARF") methodology.

This change is necessary because the current RBC framework applies different charges to bond funds with substantially similar economic risks. For instance, bond ETFs are charged as bonds under fair value accounting, bond mutual funds face a 30% equity charge, despite investing in the same types of bonds as ETFs, and private bond funds are charged as bonds. These discrepancies disincentivize efficient capital allocation. The proposed unified treatment eliminates this disparity, ensuring that RBC charges reflect true economic risks and promote a level playing field.

The proposal's focus on the SVO WARF methodology for RBC charge calculation is appropriate. The SVO WARF framework aligns RBC charges with credit risk by considering the weighted average rating of the fund's underlying bonds. It provides consistent and transparent risk measurements, applicable across all bond fund types that meet the SVO's criteria. This methodology is well suited for bond funds as it evaluates risk at the collateral level rather than the legal structure level. By applying WARF consistently, the proposed principles ensure that RBC charges are based on actual credit risks, enhancing the accuracy and reliability of capital adequacy assessments.

The principles also emphasize that economic risk should be evaluated consistently across all bond funds, with no differentiation based on legal structure. Differences in legal structure or accounting standards (SSAPs) should not lead to inconsistent RBC charges. Specifically, the criteria for material similarity in economic risk state that all fund investors must have equal ownership status, ensuring no senior or junior tranches could skew risk exposure. It also ensures that investors' risk exposures are accurately captured in RBC charges, regardless of fund type or structure.

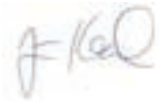


In conclusion, our members strongly support the adoption of the proposed RBC Principles for Bond Funds as they align RBC charges with underlying economic risks rather than legal structures. This approach reduces regulatory complexity, enhances transparency, and ensures a fair and level playing field for all market participants. It also reduces compliance burdens by simplifying RBC reporting requirements.

We encourage the RBC-IRE Working Group to adopt these principles and consider their application to other investment types facing similar inconsistencies in RBC treatment. This initiative will improve the accuracy, consistency, and fairness of the RBC framework.

We commend the Working Group for its leadership and commitment to regulatory consistency and capital adequacy. Please contact me at Jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org if you have any questions or would like to discuss these topics in more detail.

Sincerely,



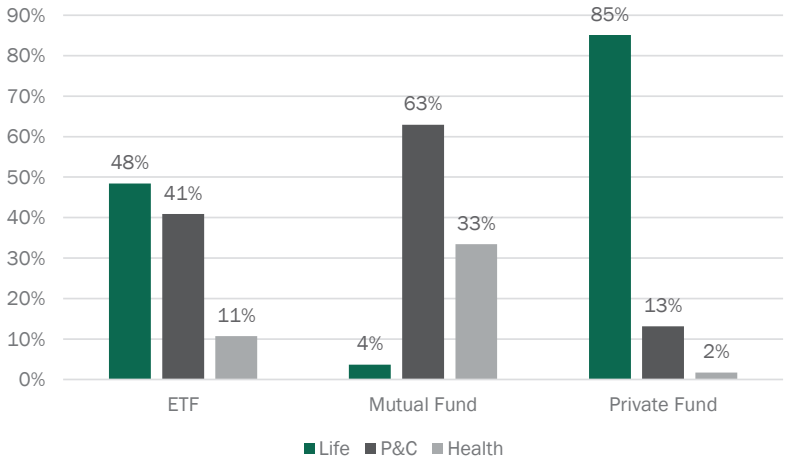
Jiří Król
Global Head of Alternative Credit Council

March 7, 2025

Dear Chair Barlow and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group:

We commend the working group for striving to create greater consistency in the risk-based capital (RBC) treatment for bond funds. We support the exposure draft for its emphasis on "substance over form" and the proposal to assign RBC charges to bond mutual funds according to Securities Valuation Office (SVO) designation. This alignment would harmonize the RBC treatment for bond mutual funds with that for bond ETFs and private funds.

The proposal, if adopted, is expected to be effective only for life insurers. However, non-life insurers, who have significantly more exposure to SVO-designated mutual funds, are currently unable to use SVO designation for RBC purposes. Moreover, for bond ETFs and private funds, non-life insurers also cannot utilize SVO designations. Overall, 96% of SVO-designated mutual funds and 45% of all SVO-designated funds (collectively across ETFs, mutual funds, and private funds) resided on non-life insurance balance sheets.[1]



Source: PineBridge Investments summary based on NAIC 2023 annual filings data on SVO-designated ETF, SEC-registered mutual funds, and private funds

We propose allowing non-life insurers to apply SVO fund designation for RBC purposes. The current inconsistent treatment (i.e., disallowing non-life insurers to use SVO fund designation) negatively impacts non-life insurers. This especially disadvantages small-to-medium non-life insurers which rely more on fund vehicles to access certain fixed income markets to diversify investment risk. Fund vehicles enable them to invest in a broader, more diverse set of fixed income assets. Disallowing non-life insurers from applying SVO fund designations subjects them to onerous RBC treatment and strongly incentivizes them to hold individual securities directly

[1] Certain Bond funds reported in 2023 Annual Statement Filings

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instead. However, most smaller insurers do not have the scale or operational infrastructure to invest in this way. Fund vehicles offer a suitable alternate form of investment, where the substance of the risk is unchanged. Non-life insurers have previously supported this harmonization and submitted comment letters to NAIC working groups in June 2022 and November 2019.

Finally, we are encouraged by the recent launch of the NAIC RBC Task Force by the NAIC Executive Committee to address changes to RBC treatment designed to increase consistency. To that end, we strongly support aligning the RBC treatment for fund vehicles across both life and non-life insurers.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Commissioner Doug Ommen, Chair, Capital Adequacy (E) Task Force
Director Judith L. French, Vice Chair, Capital Adequacy (E) Task Force

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

DATE: February 21, 2025

RE: ACLI Comment Letter Referral

On Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received and discussed a comment letter received from the American Council of Life Insurers (ACLI) in response to Proposal 2024-24-L—Principle Based Bond Definition Project. Within its comment letter, the ACLI inquired about potential referral(s) to the Health Risk-Based Capital (E) Working Group and the Property and Casualty Risk-Based Capital (E) Working Group to facilitate modifications to the health and property/casualty (P/C) risk-based capital (RBC) blanks, if deemed appropriate.

Since changes to the health and P/C RBC blanks resulted from the adoption of the principle-based bond definition was deliberated in Proposal 2025-25-CA at the Capital Adequacy (E) Task Force, the Working Group hereby forwards the ACLI comment letter as Attachment A for the Task Force's consideration.

Please contact Maggie Chang, NAIC support staff, at mchang@naic.org with any questions.

Cc: Julie Gann, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

Attachment A: ACLI comment letter titled "LRBC October 2024 Exposures" and dated Feb. 5, 2025

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Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
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Attachment A

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ShannonJones@acli.com

Colin Masterson
Sr. Policy Analyst
202-624-2463
ColinMasterson@acli.com

February 5, 2025

Philip Barlow
Chair, NAIC Life Risk-Based Capital (RBC) (E) Working Group (LRBC)

Re: LRBC October 2024 Exposures

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the two RBC Proposal Forms (2024-21-L and 2024-24-L) which were exposed after the Working Group's meeting in October 2024. ACLI has split our comments below based on which exposure document they are referencing after a brief question relating to both forms.

General Feedback

- Will there be referrals for the needed modifications to the Health and P&C blanks? While we know action in these areas is outside the purview of this Working Group, it is perhaps worth notifying the groups of jurisdiction to let them decide if any actions are needed.

2024-21-L (Tax Credit)

LR007 (Real Estate):

- Line 21 (Total Tax Credit Investments) – We understand the line is being repurposed now as a total line, but do we need an instruction for that line? We do not believe the other total lines on LR007 are included in the instructions.

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

2024-24-L (Principles-Based Bond Project)

Attachment A

Blanks and/or Instructions -

LR008 (Other Long-Term Assets):

- The surplus notes and capital notes lines reference Schedule BA, should they be referencing the newly adopted lines in the AVR now?
- Line (49.2) – Is the first sentence still needed now that we are speaking about 2025 RBC filing? Should this just state "Include AVR Equity component, Column 1, Line 93 within line (49.2)?

LR009 (Schedule BA Mortgages):

- Basis of factors – the spacing in subsections 1 and 4 should be corrected.
- Changes to scheduled LR009 were introduced in the 2024 RBC instructions to include an explicit line and charge for Schedule BA Mortgages in good standing for "(2) Affiliated Mortgages – Residential – All Other" with a charge of 0.0068 to align with charges on residential mortgage loans held directly. However, a similar line was not added for Unaffiliated Residential Mortgages in Good Standing. This leads to Unaffiliated Residential Mortgages in good standing getting included in either "Unaffiliated Mortgages - Primarily Senior" which has a charge of 0.0175 or "(6) Unaffiliated Mortgages – All Other" which has a charge of 0.0300. Should an additional line be added for "Unaffiliated Mortgages – Residential – All Other" with a proposed charge of 0.0068?
- ACLI would also recommend addressing the fact that BA Farm Loans 90 days overdue and in foreclosures are not mapped into LR009 from the AVR page. This can be seen as there are missing AVR lines (#46 and #51) on the LR009 source column.

LR010 (Asset Concentration Factor):

- Specific instructions for application of the formula – does "short-term investments" need to include cash equivalents now that they are part of LR002?

LR047 - Reinsurance Ceded – All Other Assets C-0, C-10 and C-1cs LR047 (ModCo or Funds Withheld Reinsurance Agreements):

- Column 4 – LR002 Column (2) Line (19) should not be included as LR002 Bonds have their own page only for bonds (LR045) which is shown above with the same reference.

LR048- Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs LR048 (ModCo or Funds Withheld Reinsurance Agreements):

- Column 4 – LR002 Column (2) Line (20) should not be included as LR002 Bonds have their own page only for bonds (LR046) which is shown above with the same reference.

Blanks Pages -

LR002 (Short Term and Cash Equivalent Bonds):

- Line 22 – Now that cash equivalents are to be added here, could there be a need to add a reference for the inclusion of cash equivalents (line 0299999) on this line too? Currently the line only includes LT Bonds and ST Bonds but not Cash Equivalents.

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LR017: Attachment A

- Off to the side of the Derivative Instruments lines, there is a block of text in the margins that should be removed.

Thank you once again for the opportunity to review these RBC Proposal Forms and we look forward to continued discussions at a future LRBC meeting.

Sincerely,



cc: Kazeem Okosun, NAIC

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 11/18/24	**FOR NAIC USE ONLY**
CONTACT PERSON:	Derek Noe	Agenda Item # 2024-25-CA Year 2025
TELEPHONE:	816-783-8973	**DISPOSITION**
EMAIL ADDRESS:	dnoe@naic.org	**ADOPTED:** ☐ TASK FORCE (TF) _____ ☐ WORKING GROUP (WG) _____ ☐ SUBGROUP (SG) _____
ON BEHALF OF:	Capital Adequacy (E) Task Force	
NAME:	Tom Botsko	
TITLE:	Chair	**EXPOSED:** ☒TASK FORCE (TF) 11/18/24, 3/25/25 ☐ WORKING GROUP (WG) _____ ☐ SUBGROUP (SG) _____
AFFILIATION:	Ohio Department of Insurance	
ADDRESS:	50 West Town Street, Suite 300 Columbus, OH 43215	**REJECTED:** ☐ TF ☐ WG ☐ SG _____ **OTHER:** ☐ DEFERRED TO _____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal incorporates changes adopted by the NAIC Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes resulted from the adoption of principle-based bond definition by Statutory Accounting Principles (E) Working Group. Changes are expected to take effect for year-end 2025.

This proposal also includes an update to PR009 to pull non-admitted collateral loans from the Notes to the Financial Statement 5S from adoption 2024-09BWG Modified.

Additional Staff Comments:

The Task Force Re-expose this proposal for a 30-day public comment period ending April 24.

** **This section must be completed on all forms.** **Revised 2-2023**

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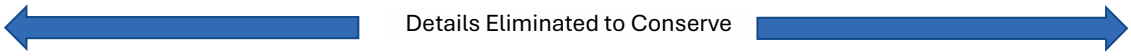
PR009 – Miscellaneous Assets

Collateral loans and write-ins for invested assets are generally a small proportion of total portfolio value. A factor of 5% is consistent with other risk-based capital formulas studied by the working group.

The factor for cash is 0.3%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021 and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

If the book/adjusted carrying value of Aggregate Write-Ins for Invested Assets (Page 2, Line 11, Column 3 of the annual statement) is less than zero, the RBC amount will be zero.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3% factor is equal to the factor for cash. The amount entered for short-term bonds should equal the total short-term investments found in Schedule DA Part 1 C~~7~~6 L02509999999. This amount is subtracted from the total of short-term investments as they are captured with bonds on PR006.



PR007 – Unaffiliated Preferred and Common Stock

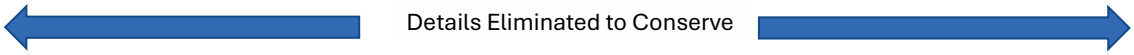
Unaffiliated Preferred Stock

Detailed information on unaffiliated preferred stocks is found in Schedule D Part 2 Section 1 of the annual statement. The preferred stocks must be broken out by NAIC Designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines of the RBC software. The total amount of unaffiliated preferred stock reported should equal annual statement P2 L2.1 C3 less any affiliated preferred stock in Schedule D-Summary by Country C1 L22~~18~~.

Unaffiliated Common Stock

The factor for other unaffiliated common stock is based on studies that indicate a 10% to 12% factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a one-year future period. The higher factor of 15% contained in the formula reflects the increased risk when testing a period in excess of one year. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

The total of all unaffiliated common stock reported should be equal to the total value of common stock in Schedule D-Summary by Country C1 L29~~25~~ less the sum of Schedule D-Summary by Country C1 L28~~24~~ and PR007, Column 1, Line 10~~8~~.



APPENDIX 3 – EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 67) by the percentage of ownership (found in Schedule D – Part 6 – Section 1, Column 102). For example:

Subsidiary Insurance Company	Owner's Book/Adjusted Carrying Value	Percentage Ownership	Total Stock Outstanding
Subsidiary #1	$1,000,000	100%	$1,000,000
Subsidiary #2	$1,000,000	75%	$1,333,333
Subsidiary #3	$1,000,000	50%	$2,000,000
Subsidiary #4	$1,000,000	25%	$4,000,000
Subsidiary #5	$1,000,000	10%	$10,000,000

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Bonds (XR007)

The bond factors for investment grade bonds (NAIC Designation (1.A-2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a "roll of the dice") where the default probability varies by NAIC Designation Category and that year's economic environment. The default probabilities were based on historical data intended to reflect a complete business cycle of favorable or unfavorable credit environments. The risk of default was measured over a five-year time horizon, based on the duration of assets held for health companies.

The factors for NAIC Designation Category 3.A to 6 recognize that these non-investment grade bonds are reported at the lower of amortized cost or fair value. These bond risk factors are based on the market value fluctuation for each of the NAIC Designation Category compared to the market value fluctuation of stocks during the 2008-2009 financial crisis.

While the life and property/casualty formulas have a separate calculation for the bond size factor (based on the number of issuers in the RBC filer's portfolio), the health formula does not include a separate calculation, instead a bond size component was incorporated into the bond factors. A representative portfolio of 382 issuers was used in calculating the bond risk factors.

There is no RBC requirement for bonds guaranteed by the full faith and credit of the United States, Other U.S. Government Obligations, and securities on the NAIC U.S. Government Money Market Fund List because it is assumed that there is no default risk associated with U.S. Government issued securities.

The book/adjusted carrying value of all bonds should be reported in Columns (1), (2), (3), or (4). The bonds are split into twenty-one different risk classifications. These risk classifications are based on the NAIC Designation Category as defined and permitted in the *Purposes and Procedures Manual of the Investment Analysis Office*. The subtotal of Columns (1), (2), (3), and (4) will be calculated in Column (5). The RBC requirement will be automatically calculated in Column (6).

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021 and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

The short-term investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3% factor is equal to the factor for cash. The amount reported in Line (8) reflects the total from Schedule DA: Short-Term Investments (Line (6)), less the short-term bonds (Line (7)). (The short-term bonds reported in Line (7) should equal Schedule DA, Part 1, Column 6 Line 0509999999.)

Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5%, consistent with other risk-based capital formulas studied by the Working Group.

The following investment types are captured on Schedule BA: Other Long-Term Invested Assets. Specific factors have been established for certain Schedule BA assets based on the nature of the investment. Those Schedule BA assets not specifically identified below receive a 20% factor (Line (16) and Line (22)).

- Collateral Loans reported on Line (13) receive a factor of 5%, consistent with other risk-based capital formulas studied by the Working Group.
- Working Capital Finance Investments: The book adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments, Lines (14) and (15), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.

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- Low-income housing tax credit investment are reported on Column (1) in accordance with *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*.
    - Federal Guaranteed Low-Income Housing Tax Credit (LIHTC) investments are to be included in Line (17). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.
    - Federal Non-Guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (18):
        a) A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.
        b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.
    - State Guaranteed LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (19).
    - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (20).
    - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (17) through (20) would be reported on Line (21).

Details Eliminated to Conserve

EQUITY ASSETS
XR010

Unaffiliated Preferred Stocks

Detailed information on unaffiliated preferred stock reported in Column (1) are found in Schedule D, Part 2, Section 1 not including affiliated preferred stock. The preferred stocks must be broken out by asset designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines. The total amount of unaffiliated preferred stock reported should equal annual statement Page 2, Column 3, Line 2.1, less any affiliated preferred stock in Schedule D Summary by Country, Column 1, Line 22.

Details Eliminated to Conserve

APPENDIX 3 – EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 6) by the percentage of ownership (found in Schedule D – Part 6 – Section 1, Column 10). For example:

Subsidiary Insurance Company	Owner's Book/Adjusted Carrying Value	Percentage Ownership	Total Stock Outstanding
Subsidiary #1	$1,000,000	100%	$1,000,000
Subsidiary #2	$1,000,000	75%	$1,333,333
Subsidiary #3	$1,000,000	50%	$2,000,000
Subsidiary #4	$1,000,000	25%	$4,000,000
Subsidiary #5	$1,000,000	10%	$10,000,000

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SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES

	Affiliated Preferred Stock Schedule D Part 6 Section 1 ~~C7~~ C6	Annual Statement Line Number	(1) Annual Statement Total Preferred Stock	(2) Total From RBC Report	(3) Difference
(1)	Parent	0199999			
(2)	U.S. P&C Insurer	0299999			
(3)	U.S. Life Insurer	0399999			
(4)	U.S. Health Insurer	0499999			
(5)	Alien Insurer	0599999			
(6)	Non-Insurer Which Controls Insurer	0699999			
(7)	Investment Subsidiary	0799999			
(8)	Other Affiliates	0899999			
(9)	Subtotal	0999999			

	Affiliated Common Stock Schedule D Part 6 Section 1 ~~C7~~ C6	Annual Statement Line Number	(1) Annual Statement Total Common Stock	(2) Total From RBC Report	(3) Difference
(10)	Parent	1099999			
(11)	U.S. P&C Insurer	1199999			
(12)	U.S. Life Insurer	1299999			
(13)	U.S.Health Insurer	1399999			
(14)	Alien Insurer	1499999			
(15)	Non-Insurer Which Controls Insurer	1599999			
(16)	Investment Subsidiary	1699999			
(17)	Other Affiliates	1799999			
(18)	Subtotal	1899999			

XR004

Confidential when Completed

OFF-BALANCE SHEET SECURITY LENDING COLLATERAL AND SCHEDULE DL, PART 1 ASSETS

	Asset Category	Annual Statement Source	(1) Off-Balance Sheet Collateral Book/Adjusted Carrying Value	(2) Schedule DL, Part 1 Book/Adjusted Carrying Value	(3) Subtotal	Factor	(4) RBC Requirement
	Fixed Income Assets						
	Bonds						
(1)	NAIC 1.A - U.S. Government - Full Faith and Credit, ~~Other U.S. Government Obligations,~~ and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	Company Records				0.000	
(2)	NAIC Designation Category 1.A Bonds	Company Records				0.003	
(3)	NAIC Designation Category 1.B Bonds	Company Records				0.005	
(4)	NAIC Designation Category 1.C Bonds	Company Records				0.008	
(5)	NAIC Designation Category 1.D Bonds	Company Records				0.011	
(6)	NAIC Designation Category 1.E Bonds	Company Records				0.014	
(7)	NAIC Designation Category 1.F Bonds	Company Records				0.016	
(8)	NAIC Designation Category 1.G Bonds	Company Records				0.019	
(9)	Total NAIC 01 Bonds	Sum of Lines (1) through (8)					
(10)	NAIC Designation Category 2.A Bonds	Company Records				0.022	
(11)	NAIC Designation Category 2.B Bonds	Company Records				0.025	
(12)	NAIC Designation Category 2.C Bonds	Company Records				0.031	
(13)	Total NAIC 02 Bonds	Sum of Lines (10) through (12)					
(14)	NAIC Designation Category 3.A Bonds	Company Records				0.069	
(15)	NAIC Designation Category 3.B Bonds	Company Records				0.076	
(16)	NAIC Designation Category 3.C Bonds	Company Records				0.083	
(17)	Total NAIC 03 Bonds	Sum of Lines (14) through (16)					
(18)	NAIC Designation Category 4.A Bonds	Company Records				0.089	
(19)	NAIC Designation Category 4.B Bonds	Company Records				0.097	
(20)	NAIC Designation Category 4.C Bonds	Company Records				0.110	
(21)	Total NAIC 04 Bonds	Sum of Lines (18) through (20)					
(22)	NAIC Designation Category 5.A Bonds	Company Records				0.123	
(23)	NAIC Designation Category 5.B Bonds	Company Records				0.137	
(24)	NAIC Designation Category 5.C Bonds	Company Records				0.151	
(25)	Total NAIC 05 Bonds	Sum of Lines (22) through (24)					
(26)	Total NAIC 06 Bonds	Company Records				0.300	
(27)	Total Bonds	Line (9) + (13) + (17) + (21) + (25) + (26)					
	Equity Assets						
	Preferred Stock - Unaffiliated						
(28)	NAIC 01 Unaffiliated Preferred Stock	Company Records				0.003	
(29)	NAIC 02 Unaffiliated Preferred Stock	Company Records				0.010	
(30)	NAIC 03 Unaffiliated Preferred Stock	Company Records				0.020	
(31)	NAIC 04 Unaffiliated Preferred Stock	Company Records				0.045	
(32)	NAIC 05 Unaffiliated Preferred Stock	Company Records				0.100	
(33)	NAIC 06 Unaffiliated Preferred Stock	Company Records				0.300	
(34)	Total Unaffiliated Preferred Stock	Sum of Lines (28) through (33)					
(35)	Unaffiliated Common Stock	Company Records				0.150	
(36)	Real Estate and Property & Equipment Assets	Company Records				0.100	
(37)	Other Invested Assets	Company Records				0.200	
(38)	Mortgage Loans on Real Estate	Company Records				0.050	
(39)	Cash, Cash Equivalents and Short-Term Investments (Not reported on Bonds above)	Company Records				0.003	
(40)	Total	Lines (27) + (34) + (35) + (36) + (37) + (38) + (39)					

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XR006

Confidential when Completed

FIXED INCOME ASSETS - BONDS

		Annual Statement Source	(1) Long-Term Bonds - **Issuer Credit Obligations Owned Schedule D**, Part 1 **Section 1** Book/Adjusted Carrying Value L(3) thru (26) = Sch D Pt 1 **Sn** 1F	(2) **Asset-Backed Securities Owned Schedule D, Part 1 Section 2** Book/Adjusted Carrying Value **L(3) thru (26) = Sch D Pt 1 Sn 2F**	~~(2)~~(3) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L(3) thru (26) = Sch DA Pt 1F	~~(3)~~(4) Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L(3) thru (26) = Sch E Pt 2F	~~(4)~~(5) Subtotal C(1) + C(2) + C(3) + **C(4)**	Factor	~~(5)~~(6) RBC Requirement
BONDS									
(1)	NAIC 1.A - U.S. Government - Full Faith and Credit~~, Other U.S. Government Obligations,~~ and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	C(1) = Sch D, Pt 1, **Sn 1, ~~C11, L0109999999~~ C8, L0019999999** **C(2) = Sch D, Pt 1, Sn 2, C8, L0019999999** **C(3)** = Sch DA, Pt 1, **~~C7, L0109999999~~ C6, L0019999999** **C(4)** = Sch E, Pt 2, C7, **~~L0109999999~~ L0019999999** + L8209999999						0.000	
(2)	NAIC Designation Category 1.A Bonds	C(1)=Footnote Amt 1 L000001A - L(1) C(2)=Footnote Amt 1 L000001A - L(1) **C(3)=Footnote Amt 1 L000001A - L(1)** **C(4)=Footnote Amt 1 L000001A - Sch E, Pt2, C7 ~~L0109999999~~ L0019999999**						0.003	
(3)	NAIC Designation Category 1.B Bonds	Footnote Amt 2 L000001A						0.005	
(4)	NAIC Designation Category 1.C Bonds	Footnote Amt 3 L000001A						0.008	
(5)	NAIC Designation Category 1.D Bonds	Footnote Amt 4 L000001A						0.011	
(6)	NAIC Designation Category 1.E Bonds	Footnote Amt 5 L000001A						0.014	
(7)	NAIC Designation Category 1.F Bonds	Footnote Amt 6 L000001A						0.016	
(8)	NAIC Designation Category 1.G Bonds	Footnote Amt 7 L000001A						0.019	
(9)	Total NAIC 01 Bonds	Sum of Lines (1) through (8)							
(10)	NAIC Designation Category 2.A Bonds	Footnote Amt 1 L000001B						0.022	
(11)	NAIC Designation Category 2.B Bonds	Footnote Amt 2 L000001B						0.025	
(12)	NAIC Designation Category 2.C Bonds	Footnote Amt 3 L000001B						0.031	
(13)	Total NAIC 02 Bonds	Sum of Lines (10) through (12)							
(14)	NAIC Designation Category 3.A Bonds	Footnote Amt 1 L000001C						0.069	
(15)	NAIC Designation Category 3.B Bonds	Footnote Amt 2 L000001C						0.076	
(16)	NAIC Designation Category 3.C Bonds	Footnote Amt 3 L000001C						0.083	
(17)	Total NAIC 03 Bonds	Sum of Lines (14) through (16)							
(18)	NAIC Designation Category 4.A Bonds	Footnote Amt 1 L000001D						0.089	
(19)	NAIC Designation Category 4.B Bonds	Footnote Amt 2 L000001D						0.097	
(20)	NAIC Designation Category 4.C Bonds	Footnote Amt 3 L000001D						0.110	
(21)	Total NAIC 04 Bonds	Sum of Lines (18) through (20)							
(22)	NAIC Designation Category 5.A Bonds	Footnote Amt 1 L000001E						0.123	
(23)	NAIC Designation Category 5.B Bonds	Footnote Amt 2 L000001E						0.137	
(24)	NAIC Designation Category 5.C Bonds	Footnote Amt 3 L000001E						0.151	
(25)	Total NAIC 05 Bonds	Sum of Lines (22) through (24)							
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F						0.300	
(27)	Total Bonds RBC	Lines (9) + (13) + (17) + (21) + (25) + (26)							

XR007

FIXED INCOME ASSETS - MISCELLANEOUS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
(1)	Cash	Page 2, Line 5, inside amount 1		0.0030	
(2)	Cash Equivalents	Page 2, Line 5, inside amount 2			
(3)	Less: Cash Equivalents, Total Bonds	Schedule E, Part 2, Column 7, Line ~~2509999999~~ 0509999999			
(4)	Less: Exempt Money Market Mutual Funds as Identified by SVO	Schedule E, Part 2, Column 7, Line 8209999999			
(5)	Net Cash Equivalents	Lines (2) - (3) - (4)		0.0030	
(6)	Short-Term Investments	Page 2, Line 5, inside amount 3			
(7)	Short-Term Bonds	Schedule DA, Part 1, Column ~~7~~ 6, Line ~~2509999999~~ 0509999999			
(8)	Total Other Short-Term Investments	Lines (6) - (7)		0.0030	
(9)	Mortgage Loans - First Liens	Page 2, Column 3, Line 3.1		0.0500	
(10)	Mortgage Loans - Other Than First Liens	Page 2, Column 3, Line 3.2		0.0500	
(11)	Receivable for Securities	Page 2, Column 3, Line 9		0.0240	
(12)	Aggregate Write-Ins for Invested Assets	Page 2, Column 3, Line 11		0.0500	
(13)	Collateral Loans	Included in Page 2, Column 3, Line 8		0.0500	
(14)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038	
(15)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125	
(16)	Other Long-Term Invested Assets Excluding Collateral Loans, Residual Tranches or Interests and Working Capital Finance Investments	Included in Page 2, Column 3, Line 8		0.2000	
(17)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014	
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260	
(19)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		0.0014	
(20)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		0.0260	
(21)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4399999 + 4499999		0.1500	
(22)	Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4499999 ~~+4599999~~ + 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 ~~+ 5699999 + 5799999~~		0.2000	
(23)	Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21) + (22)			
(24)	Derivatives	Page 2, Column 3, Line 7		0.0500	
(25)	Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + (23) + (24)			

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XR008

SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES PR005

	Affiliated Preferred Stock Schedule D Part 6 Section 1 ~~C7~~ C6	Annual Statement Line Number	(1) Annual Statement Total Preferred Stock	(2) Total From RBC Report	(3) Difference
(1)	Parent	0199999	0	0	0
(2)	U.S. P&C Insurer	0299999	0	0	0
(3)	U.S. Life Insurer	0399999	0	0	0
(4)	U.S. Health Insurer	0499999	0	0	0
(5)	Alien Insurer	0599999	0	0	0
(6)	Non-Insurer Which Controls Insurer	0699999	0	0	0
(7)	Investment Subsidiary	0799999	0	0	0
(8)	Other Affiliates	0899999	0	0	0
(9)	Subtotal	0999999	0	0	0

	Affiliated Common Stock Schedule D Part 6 Section 1 ~~C7~~ C6	Annual Statement Line Number	(1) Annual Statement Total Common Stock	(2) Total From RBC Report	(3) Difference
(10)	Parent	1099999	0	0	0
(11)	U.S. P&C Insurer	1199999	0	0	0
(12)	U.S. Life Insurer	1299999	0	0	0
(13)	U.S. Health Insurer	1399999	0	0	0
(14)	Alien Insurer	1499999	0	0	0
(15)	Non-Insurer Which Controls Insurer	1599999	0	0	0
(16)	Investment Subsidiary	1699999	0	0	0
(17)	Other Affiliates	1799999	0	0	0
(18)	Subtotal	1899999	0	0	0

PR005

BONDS PR006

		Annual Statement Source	(1) Long-Term Bonds - Issuer Credit Obligations Owned Schedule D, Part 1, Section 1 Book/Adjusted Carrying Value L3 thru 26 = Sch D Pt1Sn1F	(2) Asset-Backed Securities Owned Schedule D, Part 1 Section 2 Book/Adjusted Carrying Value L3 thru 26 = Sch D Pt1Sn2F	~~(2)~~(3) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L3 thru 26 = Sch DA Pt1F	~~(3)~~(4) Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L3 thr 26 = Sch E Pt2F	~~(4)~~(5) Subtotal C(1) + C(2) + C(3) + C(4)	Factor	~~(5)~~(6) RBC Requirement
(1)	NAIC 1.A - U.S. Government Full Faith and Credit, ~~Other U.S. Government Obligations,~~ and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	C(1)=Sch D, Pt 1, Sn 1, ~~C11 L0109999999~~ C8, L0019999999 C(2)=Sch D, Pt 1, Sn 2, C8, L0019999999 C(3)=Sch DA, Pt 1, ~~C7 L0109999999~~ C6, L0019999999 C(4)=Sch E, Pt 2, C7 ~~L0109999999~~ L0019999999 + L8209999999	0	0	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A	C(1)=Footnote Amt 1 L000001A - L(1) C(2)=Footnote Amt 1 L000001A - L(1) C(3)=Footnote Amt 1 L000001A - L(1) C(4)=Footnote Amt 1 L000001A - SCE, Pt2, C7 ~~L0109999999~~ L0019999999	0	0	0	0	0	0.002	0
(3)	NAIC Designation Category 1.B	Footnote Amt 2 L000001A	0	0	0	0	0	0.004	0
(4)	NAIC Designation Category 1.C	Footnote Amt 3 L000001A	0	0	0	0	0	0.006	0
(5)	NAIC Designation Category 1.D	Footnote Amt 4 L000001A	0	0	0	0	0	0.008	0
(6)	NAIC Designation Category 1.E	Footnote Amt 5 L000001A	0	0	0	0	0	0.010	0
(7)	NAIC Designation Category 1.F	Footnote Amt 6 L000001A	0	0	0	0	0	0.013	0
(8)	NAIC Designation Category 1.G	Footnote Amt 7 L000001A	0	0	0	0	0	0.015	0
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0	0	0		0
(10)	NAIC Designation Category 2.A	Footnote Amt 1 L000001B	0	0	0	0	0	0.018	0
(11)	NAIC Designation Category 2.B	Footnote Amt 2 L000001B	0	0	0	0	0	0.021	0
(12)	NAIC Designation Category 2.C	Footnote Amt 3 L000001B	0	0	0	0	0	0.025	0
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0	0	0		0
(14)	NAIC Designation Category 3.A	Footnote Amt 1 L000001C	0	0	0	0	0	0.055	0
(15)	NAIC Designation Category 3.B	Footnote Amt 2 L000001C	0	0	0	0	0	0.060	0
(16)	NAIC Designation Category 3.C	Footnote Amt 3 L000001C	0	0	0	0	0	0.066	0
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0	0	0		0
(18)	NAIC Designation Category 4.A	Footnote Amt 1 L000001D	0	0	0	0	0	0.071	0
(19)	NAIC Designation Category 4.B	Footnote Amt 2 L000001D	0	0	0	0	0	0.077	0
(20)	NAIC Designation Category 4.C	Footnote Amt 3 L000001D	0	0	0	0	0	0.087	0
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0	0	0		0
(22)	NAIC Designation Category 5.A	Footnote Amt 1 L000001E	0	0	0	0	0	0.098	0
(23)	NAIC Designation Category 5.B	Footnote Amt 2 L000001E	0	0	0	0	0	0.109	0
(24)	NAIC Designation Category 5.C	Footnote Amt 3 L000001E	0	0	0	0	0	0.120	0
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0	0	0		0
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F	0	0	0	0	0	0.300	0
(27)	Subtotal - Bonds Subject to Bond Size Factor	L(9) - L(1) + L(13) + L(17) + L(21) + L(25) + L(26)	0	0	0	0	0		0
(28)	Number of Issuers		0	0	0	0	0		
(29)	Bond Size Factor								6.800
(30)	Bond Size Factor RBC	C(5)L(27) x C(5)L(29)							0
(31)	Total Bonds RBC	L(27) + L(30)							0

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UNAFFILIATED PREFERRED AND COMMON STOCK PR007

	Unaffiliated Preferred Stock	Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	NAIC 01 Preferred Stock	Sch D Pt 2 Sn 1	0	0.003	0
(2)	NAIC 02 Preferred Stock	Sch D Pt 2 Sn 1	0	0.010	0
(3)	NAIC 03 Preferred Stock	Sch D Pt 2 Sn 1	0	0.020	0
(4)	NAIC 04 Preferred Stock	Sch D Pt 2 Sn 1	0	0.045	0
(5)	NAIC 05 Preferred Stock	Sch D Pt 2 Sn 1	0	0.100	0
(6)	NAIC 06 Preferred Stock	Sch D Pt 2 Sn 1	0	0.300	0
(7)	TOTAL - UNAFFILIATED PREFERRED STOCK (should equal P2 L2.1 C3 less Sch D-Sum C1 L2218)	Sum of Ls (1) through (6)	0		0
	Unaffiliated Common Stock				
(8)	Total Common Stock	Sch D - Summary C1 L2925	0		
(9)	Affiliated Common Stock	Sch D - Summary C1 L2824	0		
(10)	Non-Admitted Unaffiliated Common Stock	P2 C2 L2.2 - Sch D Pt6 Sn1 C89 L1899999	0		
(11)	Admitted Unaffiliated Common Stock	L(8) - L(9) - L(10)	0	0.150	0
(12)	Market Value Excess Affiliated Stocks	PR003 C(13) L(9999999)			0
(13)	Total Unaffiliated Common Stock and Market Value Excess Affiliated Stocks	L(11) + L(12)	0		0

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PR007

OTHER LONG-TERM ASSETS PR008

		Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	Company Occupied Real Estate	P2 L4.1 C3	0	0.100	0
(2)	Encumbrances	P2 L4.1, inside item	0	0.100	0
(3)	Property Held For the Production of Income	P2 L4.2 C3	0	0.100	0
(4)	Property Held For Sale	P2 L4.3 C3	0	0.100	0
(5)	Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	0	0.100	0
(6)	Encumbrances (Property Held For Sale)	P2 L4.3, inside item	0	0.100	0
(7)	Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	0		0
(8)	Mortgage Loans - First Liens	P2 L3.1 C3	0	0.050	0
(9)	Mortgage Loans - Other Than First Liens	P2 L3.2 C3	0	0.050	0
(10)	Total Mortgage Loans	L(8) + L(9)	0		0
(11)	Schedule BA Assets - Total	P2 L8 C3	0		
(12)	Less: Collateral Loans	PR009 L(13)	0		
(13)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
(14)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
(15)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3999999 +L4099999	0	0.0014	0
(16)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4199999 +L4299999	0	0.0260	0
(17)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4399999 +L4499999	0	0.1500	0
(18)	Working Capital Finance Investments	L(21)+L(22)	0		
(19)	Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4499999 + 4599999 + 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 ~~+ 5699999 + 5799999~~	0	0.2000	0
(20)	Schedule BA Assets Excluding Collateral Loans, LIHTC, WCFI, & Residual Tranches or Interests	L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)-L(19)	0	0.2000	0
(21)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(22)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(23)	Total Other Long-Term Assets	L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(17)+L(19)+L(20)+L(21)+L(22)	0		0

PR008

MISCELLANEOUS ASSETS PR009

		Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	Receivable for Securities	P2C3L9	0	0.025	0
(2)	Aggregate W/I for Invest Assets	P2C3 L11	0	0.050	0
(3)	Cash	P2 L5, inside amt 1	0	0.003	0
(4)	Cash Equivalents	P2 L5, inside amt 2	0		
(5)	Less: Cash Equivalents, Total Bonds	Sch E Pt 2 C7 ~~L2509999999~~ L0509999999	0		
(6)	Less: Exempt Money Market Mutual Funds as Identified by SVO	Sch E Pt 2 C7 L8209999999	0		
(7)	Net Cash Equivalents	L(4)-L(5)-L(6)	0	0.003	0
(8)	Short-Term Investments	P2 L5, inside amt 3	0		
(9)	Short-Term Bonds	Sch DA Pt 1 ~~C7~~ C6 ~~L2509999999~~ L0509999999	0		
(10)	Total Other Short-Term Investments	L(8)-L(9)	0	0.003	0
(11)	Collateral Loans	Sch BA Pt1 C12 L3199999+L3299999 ~~L2999999+3099999~~	0		
(12)	Less: Non-Admitted Collateral Loans	Notes to Financial Statement Item 5S C3 L11 ~~P2 L8 C2 in part~~	0		
(13)	Net Admitted Collateral Loans	L(11) - L(12)	0	0.050	0
(14)	Derivatives	P2C3 L7	0	0.050	0
(15)	Total Miscellaneous Assets	L(1)+L(2)+L(3)+L(7)+L(10)+L(13)+L(14)	0		0

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PR009

OFF-BALANCE SHEET COLLATERAL AND SCHEDULE DL, PART 1 ASSETS PR015

	Asset Category	Annual Statement Source	(1) Off-Balance Sheet Collateral Book/Adjusted Carrying Value	(2) Schedule DL, Part 1 Book/Adjusted Carrying Value	(3) Subtotal	Factor	(4) RBC Requirement
	Fixed Income Assets						
	Bonds						
(1)	NAIC 1.A - U.S. Government Full Faith and Credit, ~~Other U.S. Government Obligations,~~ and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	Company Records	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A	Company Records	0	0	0	0.002	0
(3)	NAIC Designation Category 1.B	Company Records	0	0	0	0.004	0
(4)	NAIC Designation Category 1.C	Company Records	0	0	0	0.006	0
(5)	NAIC Designation Category 1.D	Company Records	0	0	0	0.008	0
(6)	NAIC Designation Category 1.E	Company Records	0	0	0	0.010	0
(7)	NAIC Designation Category 1.F	Company Records	0	0	0	0.013	0
(8)	NAIC Designation Category 1.G	Company Records	0	0	0	0.015	0
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0		0
(10)	NAIC Designation Category 2.A	Company Records	0	0	0	0.018	0
(11)	NAIC Designation Category 2.B	Company Records	0	0	0	0.021	0
(12)	NAIC Designation Category 2.C	Company Records	0	0	0	0.025	0
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0		0
(14)	NAIC Designation Category 3.A	Company Records	0	0	0	0.055	0
(15)	NAIC Designation Category 3.B	Company Records	0	0	0	0.060	0
(16)	NAIC Designation Category 3.C	Company Records	0	0	0	0.066	0
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0		0
(18)	NAIC Designation Category 4.A	Company Records	0	0	0	0.071	0
(19)	NAIC Designation Category 4.B	Company Records	0	0	0	0.077	0
(20)	NAIC Designation Category 4.C	Company Records	0	0	0	0.087	0
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0		0
(22)	NAIC Designation Category 5.A	Company Records	0	0	0	0.098	0
(23)	NAIC Designation Category 5.B	Company Records	0	0	0	0.109	0
(24)	NAIC Designation Category 5.C	Company Records	0	0	0	0.120	0
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0		0
(26)	Total NAIC 06 Bonds	Company Records	0	0	0	0.300	0
(27)	Total Bonds	L(9) + (13) + (17) + (21) + (25) + (26)	0	0	0		0
	Equity Assets						
	Preferred Stock - Unaffiliated						
(28)	NAIC 01 Unaffiliated Preferred Stock	Company Records			0	0.003	0
(29)	NAIC 02 Unaffiliated Preferred Stock	Company Records			0	0.010	0
(30)	NAIC 03 Unaffiliated Preferred Stock	Company Records			0	0.020	0
(31)	NAIC 04 Unaffiliated Preferred Stock	Company Records			0	0.045	0
(32)	NAIC 05 Unaffiliated Preferred Stock	Company Records			0	0.100	0
(33)	NAIC 06 Unaffiliated Preferred Stock	Company Records			0	0.300	0
(34)	Total Unaffiliated Preferred Stock	Sum of Ls (28) through (33)	0	0	0		0
(35)	Unaffiliated Common Stock	Company Records			0	0.150	0
(36)	Real Estate and Schedule BA - Other Invested Assets	Company Records			0	0.200	0
(37)	Other Invested Assets	Company Records			0	0.200	0
(38)	Mortgage Loans on Real Estate	Company Records			0	0.050	0
(39)	Cash, Cash Equivalents and Short-Term Investments (Not reported as Bonds above)	Company Records			0	0.003	0
(40)	Total	L(27)+L(34)+L(35)+L(36)+L(37)+L(38)+L(39)	0	0	0		0

Denotes items that must be manually entered on the filing software.

PR015

Calculation of Total Risk-Based Capital After Covariance PR030 R0-R1

			(1)
R0 - Subsidiary Insurance Companies and Misc. Other Amounts		**PRBC O&I Reference**	**RBC Amount**
(1)	Directly Owned Property and Casualty Insurance Affiliates	PR004 L(2)C(2)	0
(2)	Indirectly Owned Property and Casualty Insurance Affiliates	PR004 L(5)C(2)	0
(3)	Directly Owned Life Insurance Affiliates	PR004 L(3)C(2)	0
(4)	Indirectly Owned Life Insurance Affiliates	PR004 L(6)C(2)	0
(5)	Directly Owned Health Insurance Companies or Health Entities	PR004 L(1)C(2)	0
(6)	Indirectly Owned Health Insurance Companies or Health Entities	PR004 L(4)C(2)	0
(7)	Directly Owned Alien Insurance Companies or Health Entities	PR004 L(9)+L(10)+L(11)C(2)	0
(8)	Indirectly Owned Alien Insurance Companies or Health Entities	PR004 L(12)+L(13)+L(14)C(2)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0

R1 - Asset Risk - Fixed Income			
(15)	Bonds Subject to Size Factor	PR006 L(27)~~C(5)~~C(6)	0
(16)	Bond Size Factor RBC	PR006 L(30)~~C(5)~~C(6)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long-Term Assets - Mortgage Loans, LIHTC, ~~&~~ WCFI, & Residual Tranches or Interests	PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(17)+L(19)+L(21)+L(22)C(2)	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 L(21)C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

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Attachment Eight
Capital Adequacy (E) Task Force
3/25/25

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ P/C RBC (E) Working Group
☐ Economic Scenarios (E/A) Subgroup
☐ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**11/18/24**
CONTACT PERSON:	**Derek Noe**
TELEPHONE:	**818-783-8973**
EMAIL ADDRESS:	**dnoe@naic.org**
ON BEHALF OF:	**Capital Adequacy (E) Task Force**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-26-CA
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☒ TASK FORCE (TF) 11/18/24, 3/25/25
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks
☒ Health RBC Instructions
☐ Health RBC Formula
☒ Property/Casualty RBC Blanks
☒ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☐ Life and Fraternal RBC Blanks
☐ Life and Fraternal RBC Instructions
☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal is to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to SSAP No. 93 –Investments in Tax Credit Structures and SSAP No. 94R – State and Federal Tax Credits resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the NAIC Blanks (E) Working Group.

This proposal addresses the structural and instructional changes adopted as per 2024-11BWG and does not address the potential factor change resulted from the expansion of the scope of accounting guidance in SAPWG Ref # 2022-14 and the expansion of the types of tax credit investments captured in the guidance.

This proposal also adds lines to XR008 to align Health with P/C on collateral loans. This includes pulling the total amount from Schedule BA and pulling the non-admitted amount from Note to the Financial Statement 5S added by proposal 2024-09BWG Modified.

Additional Staff Comments:

The Task Force Re-expose this proposal for a 30-day public comment period ending April 24.

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** **This section must be completed on all forms.** **Revised 2-2023**

PR008 – Other Long-Term Assets

Real Estate

The Property & Casualty Risk-Based Capital (E) Working Group adopted the factor of 10% developed for the Life RBC formula. Encumbrances have been included in the real estate base since the value of the property subject to loss would include encumbrances.

The total book/adjusted carrying value of real estate reported should equal the total of Lines 4.1, 4.2 and 4.3, Column 3 on Page 2 of the annual statement plus the insert amounts on the same lines.

Mortgage Loans on Real Estate

The Property & Casualty Risk-Based Capital Working Group adopted a factor of 5% based upon the factors developed by the Life RBC formula, which ranged from 3% to 20%.

The book/adjusted carrying value of mortgage loans reported should equal Page 2, Line 3.1, Column 3 + Page 2, Line 3.2, Column 3 of the annual statement.

Schedule BA Assets (Other Invested Assets – excluding collateral loans, ~~low-income housing~~ tax credit~~s~~ investments and Working Capital Finance Investments)

Other Invested Assets are those that are listed in Schedule BA and are somewhat more speculative and risky than most other investments. The factor for Schedule BA assets excluding collateral loans, ~~low-income housing~~ tax credits investments, and working capital finance investments is 20%.

The book/adjusted carrying value of total Schedule BA assets (including collateral loans, ~~low-income housing~~ tax credits investments and Working Capital Finance Investments) should equal Page 2, Line 8, Column 3 of the annual statement.

~~Low-Income Housing~~ Tax Credits Investments

Report in Column (1) all investments in tax credit structures ~~accordance~~ within the scope of *SSAP No. 93—~~Low-Income Housing Tax Credit Property~~ Investments in Tax Credit Structures*.

~~Federal~~Yield Guaranteed State ~~low-income housing~~ T~~t~~ax Credit ~~(LIHTC)~~ Investments are to be included in Line (13). There must be an all-inclusive guarantee from an ~~ARO~~CPR-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.

Qualifying Federal ~~Non-guaranteed LIHTC~~ Tax Credit Investments ~~with the following risk mitigation factors~~ are to be included in Line (14)~~:~~. Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.

~~a) A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.~~

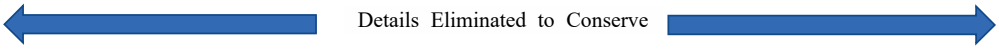
~~b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.~~

Qualifying State ~~LIHTC~~ Tax Credit Investments ~~that at a minimum meet the federal requirements for guaranteed LIHTC investments~~ are to be included in Line (15). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.

~~State LIHTC~~Other Tax Credit Investments ~~that at a minimum meet the federal requirements for non-guaranteed LIHTC investments~~ are to be included in Line (16). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit Investment, or qualifying Federal or State Tax Credit Investments are included here.

Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. This Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~State and federal LIHTC investments that do not meet the requirements of lines (13) through (16) would be reported on Line (17).~~



PR011 – Asset Concentration

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an issuer of a security or a mortgage borrower, etc.). The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30%) of the 10 largest asset exposures excluding various low-risk categories or categories which already have a 30% factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the 10 largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds and preferred stock, affiliated common stock, affiliated preferred stock, property and equipment, U.S. government guaranteed bonds, NAIC 1.A to 1.G bonds, or NAIC 01 unaffiliated preferred stock, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting company is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the Investment Company Act and provide this information upon request of the commissioner, director or superintendent of the department of insurance. The reporting company is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the commissioner, director or superintendent upon request.

The assets that ARE INCLUDED in the calculation are divided into two categories – Fixed Income Assets and Equity Assets. The following asset types should be aggregated to determine the 10 largest issuers:

FIXED INCOME ASSETS	EQUITY ASSETS
Bonds –NAIC Designation Category 2.A	Unaffiliated Preferred Stock –NAIC 02
Bonds – NAIC Designation Category 2.B	Unaffiliated Preferred Stock –NAIC 03
Bonds – NAIC Designation Category 2.C	Unaffiliated Preferred Stock –NAIC 04
Bonds –NAIC Designation Category 3.A	Unaffiliated Preferred Stock –NAIC 05
Bonds –NAIC Designation Category 3.B	
Bonds –NAIC Designation Category 3.C	
Bonds –NAIC Designation Category 4.A	
Bonds –NAIC Designation Category 4.B	
Bonds –NAIC Designation Category 4.C	Unaffiliated Common Stock
Bonds –NAIC Designation Category 5.A	Investment Real Estate

Bonds –NAIC Designation Category 5.B	Encumbrances on Inv. Real Estate
Bonds –NAIC Designation Category 5.C	Schedule BA Assets (excluding Collateral Loans)
Collateral Loans	Receivable for Securities
Mortgage Loans	Aggr Write-Ins for Invested Assets
Working Capital Finance Investments – NAIC 02	Derivatives

Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low-Income Housing Tax Credits~~
Qualifying Federal Tax Credit Investments ~~Federal Non-Guaranteed Low-Income Housing Tax Credits~~
Qualifying State Tax Credit Investments ~~State Guaranteed Low-Income Housing Tax Credits~~
Other Tax Credit Investments ~~State Non-Guaranteed Low-Income Housing Tax Credits~~
~~All Other Low-Income Housing Tax Credits~~

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in C(2) Ls (01) through (20) for fixed income assets and C(2), Ls (22) through (32) for equity assets. Aggregate all similar asset types before entering the amount in C(2). For instance, if you own five separate $1,000,000 NAIC 3.A bonds from Issuer #1, enter $5,000,000 in C(2)L(04) – NAIC 3.A Unaffiliated Bonds.

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021 and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

The short-term investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3% factor is equal to the factor for cash. The amount reported in Line (8) reflects the total from Schedule DA: Short-Term Investments (Line (6)), less the short-term bonds (Line (7)). (The short-term bonds reported in Line (7) should equal Schedule DA, Part 1, Column 7, Line 2509999999.)

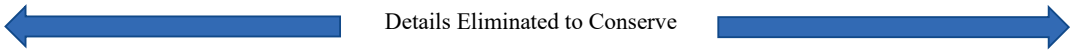
Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5%, consistent with other risk-based capital formulas studied by the Working Group.

The following investment types are captured on Schedule BA: Other Long-Term Invested Assets. Specific factors have been established for certain Schedule BA assets based on the nature of the investment. Those Schedule BA assets not specifically identified below receive a 20% factor (Line (16) and Line (22)).

- Collateral Loans reported on Line (13) receive a factor of 5%, consistent with other risk-based capital formulas studied by the Working Group.
- Working Capital Finance Investments: The book adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments, Lines (14) and (15), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.
- ~~Low-income housing tax credit~~ All investments in tax credit structures within the scope of *SSAP No. 93—Investments in Tax Credit Structures* are reported on Column (1)~~ in accordance with *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*~~.
    - ~~Federal Guaranteed Low-Income Housing Tax Credit (LIHTC)~~Yield Guaranteed State Tax Credit investments are to be included in Line (19~~17~~). There must be an all-inclusive guarantee from an ~~ARO~~CPR-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.
    - Qualifying Federal Tax Credit ~~Non-Guaranteed LIHTC i~~Investments with the following risk mitigation factors are to be included in Line (20~~18~~)~~:~~. Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.
        - ~~a) A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.~~
        - ~~b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.~~
    - Qualifying State ~~Guaranteed LIHTC~~ Tax Credit ~~i~~Investments ~~that at a minimum meet the federal requirements for guaranteed LIHTC investments~~ are to be included in Line (21~~9~~). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.
    - ~~State Non-Guaranteed LIHTC~~ Other Tax Credit ~~i~~Investments ~~that at a minimum meet the federal requirements for non-guaranteed LIHTC investments~~ are to be included on Line (22~~0~~). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit Investment, or qualifying Federal or State Tax Credit Investments are included here.

      Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. The Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~o All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (17) through (20) would be reported on Line (21).~~



ASSET CONCENTRATION
XR012

The purpose of the asset concentration calculation is to reflect the additional risk of high concentrations of certain types of assets in single exposures, termed "issuers." An issuer is a single entity, such as IBM or the Ford Motor Company. When the reporting entity has a large portion of its asset portfolio concentrated in only a few issuers, there is a heightened risk of insolvency if one of those issuers should default. An issuer may be represented in the reporting entity's investment portfolio by a single security designation, such as a large block of NAIC Designation Category 2.A bonds, or a combination of various securities, such as common stocks, preferred stocks, and bonds. The additional RBC for asset concentration is applied to the ten largest issuers.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the ten largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds and unaffiliated preferred stock; affiliated common stock; affiliated preferred stock; property and equipment; U.S. government full faith and credit, Other U.S. government obligations, and NAIC U.S. government money market fund list securities; NAIC 01 bonds and unaffiliated preferred stock; any other asset categories with risk-based capital factors less than 1%**,** and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting entity is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the federal Investment Company Act and providing this information upon request of the Commissioner, Director or Superintendent of the Department of Insurance. The reporting entity is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the Commissioner, Director or Superintendent upon request.

The assets that **ARE INCLUDED** in the calculation when determining the 10 largest issuers are as follows:

NAIC Designation Category 2.A-2.C Bonds
NAIC Designation Category 3.A-3.C Bonds
NAIC Designation Category 4.A-4.C Bonds
NAIC Designation Category 5.A-5.C Bonds
Collateral Loans
Mortgage Loans
NAIC 02 Unaffiliated Preferred Stock
NAIC 03 Unaffiliated Preferred Stock
NAIC 04 Unaffiliated Preferred Stock

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NAIC 05 Unaffiliated Preferred Stock
Other Long-Term Assets
NAIC 02 Working Capital Finance Investments
Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low-Income Housing Tax Credits~~
Qualifying Federal Tax Credit Investments ~~Federal Non-Guaranteed Low-Income Housing Tax Credits~~
Qualifying State Tax Credit Investments ~~State Guaranteed Low-Income Housing Tax Credits~~
Other Tax Credit Investments ~~State Non-Guaranteed Low-Income Housing Tax Credits~~
~~All Other Low-Income Housing Tax Credits~~
Unaffiliated Common Stock

The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30%) for assets held in the 10 largest issuers. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in Column (2), Lines (1) through (26). Aggregate all similar asset types before entering the amount in Column (2). To determine the 10 largest issuers, first pool all of the assets subject to the concentration factor. From this pool, aggregate the various securities by issuer. The aggregate book/adjusted carrying values for the assets are computed, and the 10 largest are subject to the concentration factor. For example, an organization might own $6,000,000 in NAIC Designation Category 2.A bonds of IBM plus $4,000,000 in NAIC Designation Category 2.C plus $5,000,000 of common stock. The total investment in that issuer is $15,000,000. If that is the largest issuer, then the identifier ("IBM Corporation") would be entered in the space allowed for the first Issuer Name, and the $6,000,000 would be entered under the book/adjusted carrying value column for Line (1) (NAIC Designation Category 2.A bonds), $4,000,000 would be entered on Line (3) (NAIC Designation Category 2.C Bonds) and the $5,000,000 would be entered on Line (22) (unaffiliated common stock).

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

FIXED INCOME ASSETS - MISCELLANEOUS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
(1)	Cash	Page 2, Line 5, inside amount 1		0.0030	
(2)	Cash Equivalents	Page 2, Line 5, inside amount 2			
(3)	Less: Cash Equivalents, Total Bonds	Schedule E, Part 2, Column 7, Line 2509999999			
(4)	Less: Exempt Money Market Mutual Funds as Identified by SVO	Schedule E, Part 2, Column 7, Line 8209999999			
(5)	Net Cash Equivalents	Lines (2) - (3) - (4)		0.0030	
(6)	Short-Term Investments	Page 2, Line 5, inside amount 3			
(7)	Short-Term Bonds	Schedule DA, Part 1, Column 7, Line 2509999999			
(8)	Total Other Short-Term Investments	Lines (6) - (7)		0.0030	
(9)	Mortgage Loans - First Liens	Page 2, Column 3, Line 3.1		0.0500	
(10)	Mortgage Loans - Other Than First Liens	Page 2, Column 3, Line 3.2		0.0500	
(11)	Receivable for Securities	Page 2, Column 3, Line 9		0.0240	
(12)	Aggregate Write-Ins for Invested Assets	Page 2, Column 3, Line 11		0.0500	
(13)	Collateral Loans	**Schedule BA Part 1, Column 12 Lines 3199999 + 3299999** ~~**Included in Page 2, Column 3, Line 8**~~		~~**0.0500**~~	
(14)	**Less: Non-Admitted Collateral Loans**	**Notes to the Financial Statement 5S, Column 3 Line 11**			
(15)	**Net Collateral Loans**	**Lines (13) - (14)**		**0.0500**	
~~**(14)**~~**(16)**	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038	
~~**(15)**~~**(17)**	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125	
~~**(16)**~~**(18)**	Other Long-Term Invested Assets Excluding Collateral Loans, **Tax Credit Investments**, Residual Tranches or Interests and Working Capital Finance Investments	Included in Page 2, Column 3, Line 8		0.2000	
~~**(17)**~~**(19)**	**Yield Guaranteed State Tax Credit Investments** ~~**Federal Guaranteed Low Income Housing Tax Credits**~~	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014	
~~**(18)**~~**(20)**	**Qualifying Federal Tax Credit Investments** ~~**Non-Guaranteed Low Income Housing Tax Credits**~~	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260	
~~**(19)**~~**(21)**	**Qualifying State Tax Credit Investments** ~~**Guaranteed Low Income Housing Tax Credits**~~	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		**0.0260** ~~**0.0014**~~	
~~**(20)**~~**(22)**	~~**All Other Tax Credit Investments State Non-Guaranteed Low Income Housing Tax Credits**~~	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		**0.1500** ~~**0.0260**~~	
~~**(21)**~~	~~**All Other Low-Income Housing Tax Credits**~~	~~**Schedule BA Part 1, Column 12 Lines 4399999 + 4499999**~~		~~**0.1500**~~	
~~**(22)**~~**(23)**	Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999		0.2000	
~~**(23)**~~**(24)**	Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines ~~**(13) + (14) +**~~ (15) + (16) + (17) + (18) + (19) + (20) + (21) + (22) **+ (23)**			
~~**(24)**~~**(25)**	Derivatives	Page 2, Column 3, Line 7		0.0500	
~~**(25)**~~**(26)**	Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) ~~**+ (23)**~~ + (24) **+ (25)**			

Denotes items that must be manually entered on filing software.

XR008

Confidential when Completed

ASSET CONCENTRATION

	(1) Issuer Name	(2) Bk/Adj Carrying Value	Factor	(3) Additional RBC
(1)	NAIC Designation Category 2.A Bonds		0.0220	
(2)	NAIC Designation Category 2.B Bonds		0.0250	
(3)	NAIC Designation Category 2.C Bonds		0.0310	
(4)	NAIC Designation Category 3.A Bonds		0.0690	
(5)	NAIC Designation Category 3.B Bonds		0.0760	
(6)	NAIC Designation Category 3.C Bonds		0.0830	
(7)	NAIC Designation Category 4.A Bonds		0.0890	
(8)	NAIC Designation Category 4.B Bonds		0.0970	
(9)	NAIC Designation Category 4.C Bonds		0.1100	
(10)	NAIC Designation Category 5.A Bonds		0.1230	
(11)	NAIC Designation Category 5.B Bonds		0.1370	
(12)	NAIC Designation Category 5.C Bonds		0.1490	
(13)	Collateral Loans		0.0500	
(14)	Mortgages		0.0500	
(15)	NAIC 02 Unaffiliated Preferred Stock		0.0100	
(16)	NAIC 03 Unaffiliated Preferred Stock		0.0200	
(17)	NAIC 04 Unaffiliated Preferred Stock		0.0450	
(18)	NAIC 05 Unaffiliated Preferred Stock		0.1000	
(19)	Other Long-Term Invested Assets		0.1000	
(20)	NAIC 02 Working Capital Finance Investments		0.0125	
(21)	**Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low-Income Housing Tax Credits~~**		0.0014	
(22)	**Qualifying Federal Tax Credit Investments ~~Non-Guaranteed Low-Income Housing Tax Credits~~**		0.0260	
(23)	**Qualifying State Tax Credit Investments ~~Guaranteed Low-Income Housing Tax Credits~~**		**0.0260** **~~0.0014~~**	
(24)	**Other Tax Credit Investments ~~State Non-Guaranteed Low-Income Housing Tax Credits~~**		**0.1500** **~~0.0260~~**	
~~(25)~~	**~~All Other Low-Income Housing Tax Credits~~**		**~~0.1500~~**	
(25)~~(26)~~	Unaffiliated Common Stock		0.1500	
(26)~~(27)~~	Total of Issuer = Lines (1) through (26)			

Note: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calcuated as the sum of issuers 1-10 by asset type.

Denotes items that must be manually entered on filing software.

XR012

Confidential when Completed

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS			
(1)	Off-Balance Sheet Items	XR005, Off-Balance Sheet Page, Line (21)	
(2)	Directly Owned Health Insurance Companies or Health Entities	XR003, Affiliates Page, Column (2), Line (1)	
(3)	Directly Owned Property and Casualty Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (2)	
(4)	Directly Owned Life Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (3)	
(5)	Indirectly Owned Health Insurance Companies or Health Entities	XR003, Affiliates Page, Column (2), Line (4)	
(6)	Indirectly Owned Property and Casualty Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (5)	
(7)	Indirectly Owned Life Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (6)	
(8)	Affiliated Alien Insurers - Directly Owned	XR003, Affiliates Page, Column (2), Line (9) + (10) + (11)	
(9)	Affiliated Alien Insurers - Indirectly Owned	XR003, Affiliates Page, Column (2), Line (12) + (13) + (14)	
(10)	Total H0	Sum Lines (1) through (9)	
H1 - ASSET RISK - OTHER			
(11)	Holding Company in Excess of Indirect Subs	XR003, Affiliates Page, Column (2), Line (7)	
(12)	Investment Subsidiary	XR003, Affiliates Page, Column (2), Line (8)	
(13)	Investment in Upstream Affiliate (Parent)	XR003, Affiliates Page, Column (2), Line (15)	
(14)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (16)	
(15)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (17)	
(16)	Directly Owned Life Insurance Companies Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (18)	
(17)	Affiliated Non-Insurer	XR003, Affiliates Page, Column (2), Line (19) + (20) + (21)	
(18)	Fixed Income Assets	XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR007, Fixed Income Assets - Bonds, Line (27) + XR008, Fixed Income Assets - Miscellaneous, Line ~~(25)~~**(26)**	
(19)	Replication & Mandatory Convertible Securities	XR009, Replication/MCS Page, Line (9999999)	
(20)	Unaffiliated Preferred Stock	XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7)	
(21)	Unaffiliated Common Stock & Market Value Excess Affiliated Stocks	XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, Line (13)	
(22)	Property & Equipment	XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9)	
(23)	Asset Concentration	XR012, Grand Total Asset Concentration Page, Line ~~(27)~~**(26)**	
(24)	Total H1	Sum Lines (11) through (23)	
H2 - UNDERWRITING RISK			
(25)	Net Underwriting Risk	XR013, Underwriting Risk Page, Line (21)	
(26)	Other Underwriting Risk	XR015, Underwriting Risk Page, Line (25.3)	
(27)	Disability Income	XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3)	
(28)	Long-Term Care	XR016, Underwriting Risk Page, Line (41)	
(29)	Limited Benefit Plans	XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44)	
(30)	Premium Stabilization Reserve	XR017, Underwriting Risk Page, Line (45)	
(31)	Total H2	Sum Lines (25) through (30)	

Denotes items that must be manually entered on filing software.

XR024

OTHER LONG-TERM ASSETS PR008

		Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	Company Occupied Real Estate	P2 L4.1 C3	0	0.100	0
(2)	Encumbrances	P2 L4.1, inside item	0	0.100	0
(3)	Property Held For the Production of Income	P2 L4.2 C3	0	0.100	0
(4)	Property Held For Sale	P2 L4.3 C3	0	0.100	0
(5)	Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	0	0.100	0
(6)	Encumbrances (Property Held For Sale)	P2 L4.3, inside item	0	0.100	0
(7)	Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	0		0
(8)	Mortgage Loans - First Liens	P2 L3.1 C3	0	0.050	0
(9)	Mortgage Loans - Other Than First Liens	P2 L3.2 C3	0	0.050	0
(10)	Total Mortgage Loans	L(8) + L(9)	0		0
(11)	Schedule BA Assets - Total	P2 L8 C3	0		
(12)	Less: Collateral Loans	PR009 L(13)	0		
(13)	**Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low Income Housing Tax Credits~~**	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
(14)	**Qualifying Federal Tax Credit Investments ~~Non-Guaranteed Low Income Housing Tax Credits~~**	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
(15)	**Qualifying State Tax Credit Investments ~~Guaranteed Low Income Housing Tax Credits~~**	Schedule BA Part 1, C12 L3999999 +L4099999	0	**0.0260 ~~0.0014~~**	0
(16)	**Other Tax Credit Investments ~~State Non-Guaranteed Low Income Housing Tax Credits~~**	Schedule BA Part 1, C12 L4199999 +L4299999	0	**0.1500 ~~0.0260~~**	0
~~(17)~~	**~~All Other Low Income Housing Tax Credits~~**	**~~Schedule BA Part 1, C12 L4399999 +L4499999~~**	**~~0~~**	**~~0.1500~~**	**~~0~~**
(17)~~(18)~~	Working Capital Finance Investments	**L(20)+L(21)~~+L(22)~~**	0		
(18)~~(19)~~	Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999	0	0.2000	0
(19)~~(20)~~	Schedule BA Assets Excluding Collateral Loans, **Tax Credit Investments ~~LIHTC~~**, ~~&~~ WCFI, & Residual Tranches or Interests	**L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)~~-L(19)~~**	0	0.2000	0
(20)~~(21)~~	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(21)~~(22)~~	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(22)~~(23)~~	Total Other Long-Term Assets	**L(7)+L(10)+L(13)+L(14)+L(15) +L(16)~~+L(17)~~+L(18)+L(19)+L(20)+L(21)~~+L(22)~~**	0		0

PR008

ASSET CONCENTRATION PR011

		(1)	(2)		(3)
	ISSUER #1				
			Book/Adjusted Carrying Value	Factor	Additional RBC
(1)	NAIC Designation Category 2.A Bonds		0	0.0180	0
(2)	NAIC Designation Category 2.B Bonds		0	0.0210	0
(3)	NAIC Designation Category 2.C Bonds		0	0.0250	0
(4)	NAIC Designation Category 3.A Bonds		0	0.0550	0
(5)	NAIC Designation Category 3.B Bonds		0	0.0600	0
(6)	NAIC Designation Category 3.C Bonds		0	0.0660	0
(7)	NAIC Designation Category 4.A Bonds		0	0.0710	0
(8)	NAIC Designation Category 4.B Bonds		0	0.0770	0
(9)	NAIC Designation Category 4.C Bonds		0	0.0870	0
(10)	NAIC Designation Category 5.A Bonds		0	0.0980	0
(11)	NAIC Designation Category 5.B Bonds		0	0.1090	0
(12)	NAIC Designation Category 5.C Bonds		0	0.1200	0
(13)	Collateral Loans		0	0.0500	0
(14)	Mortgage Loans		0	0.0500	0
(15)	NAIC 02 Working Capital Finance Investments		0	0.0125	0
(16)	**Yield Guaranteed State Tax Credit Investments ~~Federal Guaranteed Low Income Housing Tax Credits~~**		0	0.0014	0
(17)	**Qualifying Federal Tax Credit Investments ~~Federal Non-Guaranteed Low Income Housing Tax Credits~~**		0	0.0260	0
(18)	**Qualifying State Tax Credit Investments ~~State Guaranteed Low Income Housing Tax Credits~~**		0	0.0260 ~~0.0014~~	0
(19)	**Other Tax Credit Investments ~~State Non-Guaranteed Low Income Housing Tax Credits~~**		0	0.1500 ~~0.0260~~	0
~~(20)~~	~~**All Other Low Income Housing Tax Credits**~~		~~0~~	~~0.1500~~	~~0~~
(20)~~(21)~~	SUBTOTAL - FIXED INCOME		0		0
(21)~~(22)~~	NAIC 02 Unaffiliated Preferred Stock		0	0.0100	0
(22)~~(23)~~	NAIC 03 Unaffiliated Preferred Stock		0	0.0200	0
(23)~~(24)~~	NAIC 04 Unaffiliated Preferred Stock		0	0.0450	0
(24)~~(25)~~	NAIC 05 Unaffiliated Preferred Stock		0	0.1000	0
(25)~~(26)~~	Property Held For Production of Income or For Sale Excluding Home Office		0	0.1000	0
(26)~~(27)~~	Property Held For Production of Income or For Sale Encumbrances Excluding Home Office		0	0.1000	0
(27)~~(28)~~	Schedule BA Assets		0	0.1000	0
(28)~~(29)~~	Receivable for Securities		0	0.0250	0
(29)~~(30)~~	Aggregate Write-Ins for Invested Assets		0	0.0500	0
(30)~~(31)~~	Derivatives		0	0.0500	0
(31)~~(32)~~	Unaffiliated Common Stock		0	0.1500	0
(32)~~(33)~~	SUBTOTAL - EQUITY		0		0
(33)~~(34)~~	TOTAL - ISSUER #1 (L21+L33)		0		0

NOTE: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calcuated as the sum of issuers 1-10 by asset type.

Denotes items that must be manually entered on the filing software.

PR011

Calculation of Total Risk-Based Capital After Covariance PR030 R0-R1

			(1)
R0 - Subsidiary Insurance Companies and Misc. Other Amounts		**PRBC O&I Reference**	**RBC Amount**
(1)	Directly Owned Property and Casualty Insurance Affiliates	PR004 L(2)C(2)	0
(2)	Indirectly Owned Property and Casualty Insurance Affiliates	PR004 L(5)C(2)	0
(3)	Directly Owned Life Insurance Affiliates	PR004 L(3)C(2)	0
(4)	Indirectly Owned Life Insurance Affiliates	PR004 L(6)C(2)	0
(5)	Directly Owned Health Insurance Companies or Health Entities	PR004 L(1)C(2)	0
(6)	Indirectly Owned Health Insurance Companies or Health Entities	PR004 L(4)C(2)	0
(7)	Directly Owned Alien Insurance Companies or Health Entities	PR004 L(9)+L(10)+L(11)C(2)	0
(8)	Indirectly Owned Alien Insurance Companies or Health Entities	PR004 L(12)+L(13)+L(14)C(2)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0

R1 - Asset Risk - Fixed Income			
(15)	Bonds Subject to Size Factor	PR006 L(27)C(5)	0
(16)	Bond Size Factor RBC	PR006 L(30)C(5)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long-Term Assets - Mortgage Loans, **Tax Credit Investments ~~LIHTC~~**, ~~&~~ WCFI, & Residual Tranches or Interests	PR008	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 **L(20)~~L(21)~~**C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

PR030

Calculation of Total Risk-Based Capital After Covariance PR031 R2-R3

			(1)
R2 - Asset Risk - Equity		PRBC O&I Reference	RBC Amount
(27)	Common & Preferred- Affiliate Investment Subsidiary	PR004 L(8)C(2)	0
(28)	Common & Preferred- Affiliate Holding Company in excess of Indirect Subs	PR004 L(7)C(2)	0
(29)	Common & Preferred- Investment in Parent	PR004 L(15)C(2)	0
(30)	Common & Preferred- Aff'd US P&C Not Subj to RBC	PR004 L(17)C(2)	0
(31)	Common & Preferred- Affil US Life Not Subj to RBC	PR004 L(18)C(2)	0
(32)	Common & Preferred- Affil US Health Insurer Not Subj to RBC	PR004 L(16)C(2)	0
(33)	Common & Preferred- Aff'd Non-insurer	PR004 L(19)+L(20)+L(21)C(2)	0
(34)	Unaffiliated Preferred Stock	PR007 L(7)C(2)+PR015 L(34)C(4)	0
(35)	Total Unaffiliated Common Stock and Fair Value Excess Affiliated Stocks	PR007 L(13)C(2)+PR015 L(35)C(4)	0
(36)	Other Long -Term Assets - Real Estate	PR008 L(7)C(2)	0
(37)	Other Long -Term Assets - Schedule BA Assets	PR008 L(19)~~L(20)~~C(2)+PR015 L(36)+L(37)C(4)	0
(38)	Misc Assets - Receivable for Securities	PR009 L(1)C(2)	0
(39)	Misc Assets - Aggregate Write-ins for Invested Assets	PR009 L(2)C(2)	0
(40)	Misc Assets - Derivatives	PR009 L(14)C(2)	0
(41)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(42)	Asset Concentration RBC - Equity	PR011 L(32)~~L(33)~~C(3) Grand Total Page	0
(43)	Total R2	L(27)+L(28)+L(29)+L(30)+L(31)+L(32)+L(33)+L(34) +L(35)+L(36)+L(37)+L(38)+L(39)+L(40)+L(41)+L(42)	0
R3 - Asset Risk - Credit			
(44)	Other Credit RBC	PR012 L(8)-L(1)-L(2)C(2)	0
(45)	One half of Rein Recoverables	0.5 x (PR012 L(1)+L(2)C(2))	0
(46)	Other half of Rein Recoverables	If R4 L(50)>(R3 L(44) + R3 L(45)), 0, otherwise, R3 L(45)	0
(47)	Health Credit Risk	PR013 L(12)C(2)	0
(48)	Total R3	L(44) + L(45) + L(46) + L(47)	0

PR031

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 3/25/25	**FOR NAIC USE ONLY**
CONTACT PERSON:	Derek Noe	Agenda Item # 2025-07-CA Year 2025
TELEPHONE:	816-783-8973	**DISPOSITION**
EMAIL ADDRESS:	DNOE@NAIC.ORG	**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF:	Capital Adequacy (E) Task Force	
NAME:	Mike Yanacheak	
TITLE:	Chair	**EXPOSED:** ☒ TASK FORCE (TF) 3/25/25 ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
AFFILIATION:	Iowa Insurance Division	
ADDRESS:	1963 Bell Avenue, Suite 100, Des Moines, IA 50315	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
		OTHER: ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal seeks to expand the instructions for LR034, LR035, PR033, PR034 and XR027 to facilitate consistent labeling of various company action levels across lines of businesses. In addition, the Blanks for LR034 and LR035 are modified to aligned with the corresponding instructions.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

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COMPARISON OF TOTAL ADJUSTED CAPITAL TO RISK-BASED CAPITAL
XR027

As long as the Total Adjusted Capital (TAC) shown on Line (1) of Comparison of Total Adjusted Capital to Risk-Based Capital section exceeds the Company Action Level Risk-Based Capital (CALRBC) shown on Line (2), the reporting entity has passed the minimum capital adequacy test of the Health RBC formula. However, that does not necessarily mean that the reporting entity is financially sound. The RBC formula is just one of many regulatory tools used by regulators to evaluate the financial health of regulated entities. Although healthy companies rarely fail the RBC test, weak companies often do pass the RBC test, although weak companies will eventually fail the test if their problems continue.

Those organizations that do trigger one of the RBC action levels are generally subject to regulatory action by the state of domicile, or by a non-domiciliary state where the reporting entity does business, under the provisions of state law. The NAIC *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315) provides for an increasingly stringent regulatory response for companies that trigger one of the RBC action levels. Those action levels are (1) Company Action Level, (2) Regulatory Action Level, (3) Authorized Control Level and (4) Mandatory Control Level.
The four RBC action levels trigger an increasingly stringent level of regulatory response for those companies that trigger one of the action levels. In addition, a health organization triggers Company Action Level if it triggered trend test as described below.

Lines (2) through (6) will be calculated automatically by the program. One of the following action levels will appear on Line (126).

(1) Company Action Level (TAC is between 150 percent and 200 percent of the Authorized Control Level RBC).
(2) Regulatory Action Level (TAC is between 100 percent and 150 percent of the Authorized Control Level RBC).
(3) Authorized Control Level (TAC is between 70 percent and 100 percent of the Authorized Control Level RBC).
(4) Mandatory Control Level (TAC less than 70 percent of the Authorized Control Level RBC).
(5) Company Action Level – Trend Test (see instructions below on Trend Test)
(0) None of the above.

Company Action Level requires the reporting entity to prepare and submit to the insurance commissioner a comprehensive financial plan. The plan identifies the conditions that contributed to the company's financial condition, contains proposals to correct the company's financial problems, and provides projections of the company's financial condition, both with and without the proposed corrections.

Regulatory Action Level requires the reporting entity to submit a comprehensive financial plan. In addition, the insurance commissioner may perform any examinations or analysis of the reporting entity's business and operations that it deems necessary and issue any appropriate corrective orders to address the company's financial problems.

Authorized Control Level authorizes the insurance commissioner to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the reporting entity which may include the actions necessary to cause the insurer to be placed under regulatory control (i.e., rehabilitation or liquidation).

Mandatory Control Level requires the insurance commissioner to place the reporting entity under regulatory control.

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Trend Test

A company whose RBC ratio is greater than or equal to ~~between~~ 200 percent and less than 300 percent and combined ratio is greater than 105 percent could trigger a Company Action Level RBC regulatory action per the Trend Test.

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PR033 – Trend Test

A company whose RBC ratio is greater than or equal to 200 percent and less than 300 percent and combined ratio is greater than 120 percent could trigger a Company Action Level RBC regulatory action per the Trend Test.

PR034 - Comparison of Total Adjusted Capital and Authorized Control Level Risk-Based Capital

This section of the risk-based capital report compares amounts previously developed and determines which level of regulatory attention, if any, is applicable to the company.

Lines (1) through (5) will be calculated automatically ~~by the diskette~~. One of the following action levels will appear on L(7~~6~~):

1) Company Action Level
2) Regulatory Action Level
3) Authorized Control Level
4) Mandatory Control Level
5) Company Action Level-Trend Test
0) None

Company Action Level requires the company to prepare and submit an RBC Plan to the commissioner of their state of domicile. The RBC Plan is to be submitted within 45 days. After review, the commissioner will notify the company if the plan is satisfactory.

Regulatory Action Level requires the insurer to submit an RBC Plan, or if applicable, a Revised RBC Plan within 45 days to the commissioner of their state of domicile. After examination or analysis, the commissioner will issue an order specifying corrective actions (Corrective Order) to be taken.

Authorized Control Level authorizes the commissioner to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the insurer, which may include the actions necessary to cause the insurer to be placed under regulatory control (i.e., rehabilitation or liquidation).

Mandatory Control Level authorizes the commissioner to take actions necessary to place the company under regulatory control (i.e., rehabilitation or liquidation).

When "None" shows, the company's total adjusted capital exceeds the minimum RBC amount and the company is not subject to regulatory attention under the Risk-Based Capital (RBC) for Insurers Model Act. ~~NOTE: 98.5% of insurers usually fit into this category.~~

RISK-BASED CAPITAL LEVEL OF ACTION

(Including Tax Sensitivity Test)
LR034

Basis of Factors

This section of the risk-based capital report compares amounts previously developed and thus determines the level of regulatory attention, if any, applicable to the company.
Specific Instructions for Application of the Formula

Line (6) This section will be calculated automatically by the software, indicating the Level of Action:

Company Action Level RBC
Regulatory Action Level RBC
Authorized Control Level RBC
Mandatory Control Level RBC
None
Company Action Level RBC – Trend Test

The indicators are different event levels as defined in the Risk-Based Capital (RBC) for Insurers Model Act. Refer to the model act for further elaboration.

(0) An indicator of None requires no action.

(1) Company Action Level requires the company to prepare and submit an RBC Plan to the commissioner of the state of domicile. After review, the commissioner will notify the company if the plan is satisfactory.

(2) Regulatory Action Level requires the insurer to submit to the commissioner of the state of domicile an RBC Plan, or if applicable, a Revised RBC Plan. After examination or analysis, the commissioner will issue an order specifying corrective actions (Corrective Order) to be taken.

(3) Authorized Control Level authorizes the commissioner of the state of domicile to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the insurer.

(4) Mandatory Control Level authorizes the commissioner of the state of domicile to take actions necessary to place the company under regulatory control (i.e., rehabilitation or liquidation).

(5) Company Action Level – Trend Test requires the company to prepare and submit an RBC Plan to the commissioner of the state of domicile. After review, the commissioner will notify the company if the plan is satisfactory. Refer to Instructions for LR035 for details.

Tax Sensitivity Test
The tax sensitivity test provides a “what if” scenario that calculates the different RBC levels using pre-tax factors and eliminates deferred tax assets and liabilities from the calculation of Total Adjusted Capital. The sensitivity test has no effect on the risk-based capital amounts reported in the annual statement.

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TREND TEST

LR035

Basis of Factors

Companies whose Total Adjusted Capital is greater than or equal to ~~between~~ 2.0 and less than 3.0 times the Authorized Control Level Risk-Based Capital are subject to a trend test. The trend test calculates the greater of the decrease in the margin between the current year and the prior year and the average of the past three years. It assumes that the decrease could occur again in the coming year. Any company whose total adjusted capital, after adjusting for the maximum margin decrease, as reported on Line (15), that trends below 1.9 times the Authorized Control Level Risk-Based Capital as in Line (16) would trigger Company Action Level RBC regulatory action.

Specific Instructions for Application of the Formula

The trend test will utilize two of the previous three years of information to determine the average decrease in the last three years as reported in Line (13), the Marginal Difference Line (14) and Total Adjusted Capital Less Marginal Difference Line (15) respectively.

RISK-BASED CAPITAL LEVEL OF ACTION

Company Name Cocode: 00000

RISK-BASED CAPITAL LEVEL OF ACTION
(Including Tax Sensitivity Test)

		Source	(1) RBC Amount
(1)	Total Adjusted Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 30	LR033 Calculation of Total Adjusted Capital Column (2) Line (13)	$0
	Trigger Points for Level of Regulatory Action:		
(2)	Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	$0
(3)	Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	$0
(4)	Authorized Control Level Risk-Based Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 31	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	$0
(5)	Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	$0
(6)	Level of Action, **including Trend Test**†:		None
(7)	Authorized Control Level RBC Ratio	Line (1) / Line (4)	0.000%
	Tax Sensitivity Test		
(8)	Tax Sensitivity Test: Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Column (2) Line (18)	$0
(9)	Tax Sensitivity Test: Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	$0
(10)	Tax Sensitivity Test: Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	$0
(11)	Tax Sensitivity Test:Authorized Control Level Risk-Based Capital	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	$0
(12)	Tax Sensitivity Test: Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	$0
(13)	Tax Sensitivity Test: Level of Action:		None

=IF(D8<D22,"Mandatory Control Level",IF(D8<D19,"Authorized Control Level", IF(D8<D16,"Regulatory Action Level", IF(D8<D13,"Company Action Level", IF(AND('LR035'!D29>'LR035'!D27,'LR035'!D11<'LR035'!D9), "Company Action Level - Trend Test","None")))))

† If Total Adjusted Capital Line (1) exceeds Company Action Level Risk-Based Capital Line (2), None will be indicated (unless the Trend Test triggers Company Action Level). Otherwise, the appropriate level of action will be indicated.

LR034

TREND TEST

Company Name

TREND TEST

		Source	(1) Amount
	Criteria for Applying Trend Test		
(1)	Authorized Control Level Risk-Based Capital	LR031 Calculation of Authorized Control Level Risk-Based Capital Column (1) Line (75)	$0
(2)	Trend Test Safe Harbor	3.0 x Line (1)	$0
(3)	Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Line (13)	$0
	Trend Test Data		
(4)	First Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 2 Line 30	$0
(5)	First Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 2 Line 31	$0
(6)	Third Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 4 Line 30	$0
(7)	Third Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 4 Line 31	$0
	Trend Test Calculation (only if applicable†)		
(8)	Current Year Margin	Line (3) - Line (1)	$0
(9)	First Prior Year Margin	Line (4) - Line (5)	$0
(10)	Third Prior Year Margin	Line (6) - Line (7)	$0
(11)	Decrease in Margin from First Prior Year	Line (9) - Line (8) (use zero if negative)	$0
(12)	Decrease in Margin from Third Prior Year	Line (10) - Line (8) (use zero if negative)	$0
(13)	Average decrease in Last Three Years	1/3 of Line (12)	$0
(14)	Marginal Difference	Greater of Line (11) and Line (13)	$0
(15)	Total Adjusted Capital Less Margin Difference	Line (3) - Line (14)	$0
(16)	Level of Risk-Based Capital	1.9 x Line (1)	$0

† The Trend Test applies only if Total Adjusted Capital Line (3) is less than the Trend Test Safe Harbor Line (2) and ~~the LR034 Risk-Based Capital Level of Action Line (6) is "None".~~ **Total Adjusted Capital Line (3) is greater than or equal to 200% of Authorized Control Level Risk-Based Capital as calculated in LR034 Line(2).**

‡ If Line (15) is less than Line (16), the company triggers regulatory attention at the Company Action Level based on the trend test.

LR035

Risk-Based Capital
Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitated many projects of importance to state insurance regulators, the industry, and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition (E) Committee.

2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.

3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.

4. In 1992, the NAIC adopted the life risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major categories were identified for the life formula: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these two formulas is: asset risk; underwriting risk; credit risk; and business risk (health).

5. The total RBC needed by an insurer to avoid being taken into conservatorship is the Authorized Control Level RBC, which is 50% of the sum of the RBC for the categories, adjusted for covariance. The covariance adjustment is meant to take into account that problems in all risk categories are not likely to occur at the same time.

6. The mission of the CADTF was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The RBC formula largely consists of a series of risk factors that are applied to selected assets, liabilities, or other specific company financial data to establish the threshold levels generally needed to bear the risk arising from that item.

7. To carry out its mission, the CADTF was charged with carrying out the following initiatives:
   - Evaluate emerging "risk" issues for referral to the RBC working groups/subgroups for certain issues involving more than one RBC formula.
   - Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
   - Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
   - Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the *Accounting Practices and Procedures Manual* and the *Valuation Manual* to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives.

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Preamble

8. The RBC forecasting, and instructions were developed and are now maintained in accordance with the mission of the CADTF as a method of measuring the threshold amount of capital appropriate for an insurance company to avoid capital specific regulatory requirements based on its size and risk profile.

B. Purpose of Risk-Based Capital

9. The purpose of RBC is to identify potentially weakly capitalized companies in order to facilitate regulatory actions designed to, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates capital level trigger points that enable regulatory intervention in the operation of such companies.

10. ~~RBC instructions,~~ RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempt by the commissioner. There are no state permitted practices to modify the RBC formula and all insurers are required to abide by the RBC instructions.

11. Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore—except as otherwise required under the provisions of *Risk-Based Capital (RBC) for Insurers Model Act* (#312) or the *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

C. Objectives of Risk-Based Capital Reports

12. The primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws, with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute.

    To support this role, the RBC reports identify potentially weakly capitalized companies in that each insurer must report situations where the actual TAC is below a threshold amount for any of the several RBC levels. This is known as an "RBC event" and reporting is mandatory. The state regulatory response is likely to be unique to each insurer, as each insurer's risk profile will have some differences from the average risk profile used to develop the RBC formula factors and calculations.

    There are several RBC levels with different levels of anticipated additional regulatory oversight following the reporting of an RBC event. Company Action Level (CAL) has the least amount of additional regulatory oversight, as it envisions the company providing to its regulator a plan of action to increase capital or reduce risk or otherwise satisfy the regulator of the adequacy of its capital. Regulatory Action Level (RAL) is the next higher level, where the regulator is more directly involved in the development of the plan of action. Authorized Control Level (ACL) anticipates an even higher amount of regulatory action in implementing the plan of action. Mandatory Control Level (MCL) requires the insurance commissioner to place the reporting entity under regulatory control.

D. Critical Concepts of Risk-Based Capital

13. Over the years, various financial models have been developed to try to measure the "right" amount of capital that an insurance company should hold.[1] "No single formula or ratio can give a complete picture of a company's

[1] Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 17, 1991.

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operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur."

14. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company's RBC results to compare competitors.

15. The principal focus of solvency measurement is the determination of financial condition through an analysis of the financial statements and RBC. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise's ability to maintain itself as a going concern.

16. The CADTF and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula and considering improvements and revisions to the various RBC blanks to 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified.

17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statement blanks and the *Purposes and Procedure Manual of the NAIC Investment Analysis Office* to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to addressing the risk. The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.

E. Limited use of Risk-Based Capital

18. Use of RBC is limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.

19. RBC does not provide a complete, clear, or meaningful ranking of insurers. For example, an insurer voluntarily strengthening assumptions used for reserving would generally reduce an insurer's RBC ratio but does not indicate a weaker position than a similarly situated insurer who did not elect to strengthen assumptions used for reserving. Regulators are able to consider a complete picture of the insurer's financial situation to appropriately follow up on RBC action levels. Using RBC beyond its intended purpose could create perverse incentives for companies that are not at risk of triggering an action level.

20. RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for

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Preamble

RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

21. Because RBC is a broad tool to facilitate regulatory oversight, an insurer's RBC can fluctuate without indicating a corresponding change in the insurer's financial strength.

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EXAMINATION OVERSIGHT (E) TASK FORCE

The Examination Oversight (E) Task Force did not meet at the Spring National Meeting.

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FINANCIAL STABILITY (E) TASK FORCE

Financial Stability (E) Task Force March 17, 2025, Minutes 9-902
Macroprudential (E) Working Group Report (Attachment One)..... 9-905

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Draft: 4/3/25

Financial Stability (E) Task Force
Virtual Meeting
March 17, 2025

The Financial Stability (E) Task Force met March 17, 2025. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Elizabeth Kelleher Dwyer, Vice Chair (RI); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw (MA); Marie Grant represented by Lynn Beckner (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dwight Radel (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Michael Wise (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); and Nathan Houdek (WI).

1. Heard Opening Remarks

Commissioner Zimmerman said materials for consideration and discussion for this meeting were emailed to Task Force members and are available on the NAIC website in the Committees section under the Financial Condition (E) Committee. Materials are also available on the member SharePoint site (formerly Member Connect).

2. Adopted its 2024 Fall National Meeting Minutes

Director Dwyer made a motion, seconded by Andersen, to adopt the Task Force's Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Financial Stability (E) Task Force*). The motion passed unanimously.

3. Heard an Update on the FSOC

Director Dwyer stated that the Financial Stability Oversight Council (FSOC) principals have met twice. In December 2024, the FSOC approved its annual report, which included an overview of regulatory enhancement state regulators made through the NAIC since the prior FSOC annual report in 2023.

Director Dwyer said the recommendations the FSOC made were relevant to insurance. The FSOC recommends that the Federal Insurance Office (FIO), the NAIC, and state insurance authorities collaborate with member agencies to assess the impact of structural changes in the insurance industry on systemic risk and financial stability. It encourages ongoing enhancements to supervisory frameworks addressing liquidity stress, counterparty risk, credit risk, and ratings migration, particularly amid economic stress or market disruptions. The FSOC stresses the importance of evaluating concentrations of risk associated with offshore entities and supports further examination of offshore reinsurance practices to mitigate regulatory arbitrage. It also advocates for improved disclosure of private market investments and offshore reinsurance in financial reporting and suggests possible enhancements to supervisory tools related to risk assessment. Lastly, the FSOC calls for continued monitoring of private credit growth in the life insurance sector.

Director Dwyer then noted that the FSOC's recommendations are not binding on the states or the NAIC but do align with much of the work underway through the committee process.

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4. Adopted the Report of the Macroprudential (E) Working Group

Kasinow said the Macroprudential (E) Working Group met Feb. 25 and Feb. 6 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings. During its Feb. 25 meeting, the Working Group approved a work plan for the year, which includes an educational program for state regulators on various aspects of cross-border reinsurance, such as Schedule S reporting and accounting treatments, expected to launch by the end of April. During the Feb. 6 meeting, the Working Group discussed updates on the International Association of Insurance Supervisors (IAIS) Macroprudential Supervision Working Group (MSWG) Issues Paper on cross-border reinsurance and alternative assets, with Iowa leading the drafting efforts with the MSWG drafting team.

Kasinow mentioned that the Working Group's work plan will include reviewing the use of sidecars in the life insurance sector, creating a reinsurance dashboard, and examining retrocessions and reinsurance recapture provisions. Additionally, insights from international initiatives, such as the United Kingdom's (UK's) Prudential Regulation Authority (PRA) requirements on recapture, will inform the group's discussions, although there are no immediate plans to implement similar measures in the U.S.

The Working Group will also analyze how reinsurance capital charges are calculated, potentially leading to further discussions with the Risk-Based Capital Model Governance (EX) Task Force if needed. An overview of the 2024 *Global Insurance Market Report* (GIMAR), which compiles findings from the Global Monitoring Exercise (GME), was provided, highlighting collaborative efforts with members like Tony Quandt (NE).

Lastly, Kasinow reported on the NAIC consolidating the Excel reporting templates for liquidity stress testing to streamline data reporting and aggregation. The final templates will be posted on the NAIC website.

Rehagen made a motion, seconded by Radel, to adopt the report of the Macroprudential (E) Working Group (Attachment One). The motion passed unanimously.

5. Received an Update from the Valuation Analysis (E) Working Group

Andersen spoke on *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), adopted in 2022, which aims to ensure claims-paying ability by requiring disclosures on complex assets and their risks for life insurers. It promotes coordination between actuaries and investment teams to better address various risks. The third round of filings, due on April 1, will provide information on how life insurers model assets to support reserves.

The focus in reviewing these filings is on net yield assumptions and reinsurance collectability, particularly when insurers rely on overly optimistic returns for risky assets to demonstrate reserve adequacy. Efforts are being made to adjust these assumptions and assess reinsurance collectability using credit ratings, treaty safeguards, and stress testing.

Andersen then went over the recent reviews that led to the development of a guidance document, allowing more tailored reviews based on tranche-level allocations for structured assets. One key area of focus is the fair value of internally valued assets, which can impact asset adequacy analyses, especially when assets are expected to be sold to cover cash demands. The review also includes company-originated assets and payment-in-kind features, where cash flow generation may be inadequate.

Andersen then spoke on a new actuarial guideline that is being developed to address reinsurance activity that could reduce transparency regarding asset types and amounts supporting reserves. In cases where reinsurance reduces reserves, regulators are seeking better transparency and consistency in assumptions about net returns, mortality, longevity, and policyholder behavior.

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The goal of the guideline is to provide U.S. regulators with the necessary tools to review reserves and solvency while avoiding conflicts with international agreements. It will be disclosure-only initially, but if significant concerns arise from the disclosures, further public discussions will be held to determine the appropriate next steps. The guideline is expected to be finalized by late May 2025, with filings for year-end 2025 due by April 1, 2026.

6. Heard an International Update

Tim Nauheimer (NAIC) reported on the IAIS publishing the GIMAR for December 2024, which is a key deliverable of the Global Monitoring Exercise (GME). The report covers two main components: individual insurer monitoring (IIM) and sector-wide monitoring (SWM), with an analysis of reinsurance and climate risk. Key findings from the 2024 report highlight two macroprudential themes: key risks in the macroeconomic environment and structural shifts in the life insurance sector. Specific areas under these themes include geopolitical risks, alternative asset allocation, and cross-border asset-intensive reinsurance.

Nauheimer discussed the plans for 2025. The IAIS launched the annual GME in March and held a workshop for supervisors and insurers. They are also conducting a triennial review of GME methodology, with public consultation expected in the second quarter. The IAIS plans to release a mid-year GIMAR update in the third quarter and a detailed GIMAR report, including a special edition on natural catastrophe protection gaps, in the fourth quarter.

Nauheimer then spoke on the IAIS MSWG, which finalized a draft issues paper on structural shifts in the life insurance sector. It has received parent committee approval for public consultation. Next, the IAIS Executive Committee will provide any input and consider approval for public consultation, which is expected before the end of this quarter.

Lastly, Nauheimer reported on the IAIS Climate Risk Steering Group's plans to publish an updated climate risk application paper in the coming month, with supplementary materials for members. The group will also continue collaborating with global partners, such as the Network for Greening the Financial System (NGFS) and Sustainable Insurance Forum (SIF), to address climate-related risks in the insurance sector.

Having no further business, the Financial Stability (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/FSTF/2025/Virtual Meetings/031725/Minutes

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability (E) Task Force

FROM: Robert Kasinow, Chair, Macroprudential (E) Working Group

DATE: March 17, 2025

RE: MWG Update

The **Macroprudential (E) Working Group (MWG)** met in regulator only session on February 6 and February 25. The purpose of the Feb 6 meeting was to receive an update and ask for comments on the IAIS Macroprudential Supervision Working Group (MSWG) Issue Paper on Cross Border Reinsurance and Alternative Assets. Iowa, along with the NAIC, are members of the MSWG and Iowa has been leading the MSWG drafting team on the development of this paper. Carrie Mears of IA walked MWG members through the paper, highlighting key points. Many topics in the IAIS Issue Paper are in alignment with our domestic MWG initiatives.

On the February 25 call, MWG members approved a workplan for the year and received an overview of the IAIS GIMAR report. The MWG workplan for the year includes an education program for state regulators on Cross border reinsurance-including Schedule S reporting, Traditional, Modified Coinsurance and Funds Withheld reinsurance transaction structures. The program will also address the Accounting treatment of these transactions, including GAAP, Statutory and other jurisdictions solvency framework as deemed relevant. Lastly the education program will provide an overview of how RBC capital charges are derived from annual statement reporting for cross border reinsurance transactions. The NAIC will roll out the education program by the end of April.

The MWG workplan also includes reviewing the use of Sidecars in the life insurance sector, the creation of a reinsurance dashboard, retrocessions and reinsurance recapture provisions.

Our international involvement provides greater insight into other supervisors' initiatives such as the PRA's recent initiative on recapture. The PRA now requires insurers to demonstrate with a high level of confidence that they can withstand either a single recapture event, or multiple recapture events involving highly correlated counterparties. I'm not saying we are going to be implementing this in the U.S., but we are reviewing recapture provisions as part of our workplan.

I mentioned our education program will include a module on how reinsurance capital charges are calculated. Subsequent to our education program, the MWG and FSTF shall consider whether any further analysis of RBC is warranted. If any further work around RBC is deemed necessary, it would most likely result in a referral by the FSTF to the appropriate NAIC RBC task force or working group.

The Feb 26 call also included an overview of the 2024 GIMAR report that was published December 5, 2024. The report is the culmination of the Global Monitoring Exercise, including the Individual Insurer Monitoring and the Sector Wide Monitoring that Tim provides an update on regularly. Tony Quandt from

the state of Nebraska is also a member of the IAIS Macroprudential Monitoring Working Group (MMWG) and was involved in the GIMAR report development last year. Therefore, Tony walked MWG members through the report on the call. The report may be found on the IAIS website and the NAIC's website, FSTF page, documents section.

Lastly, as an FYI-the NAIC in coordination with industry, consolidated the Excel reporting templates for the Liquidity Stress Testing reporting. The purpose of the change was to make it easier for both insurers and the NAIC to report and aggregate the data. The templates along with the guidance Framework manual when final, will be posted to the NAIC's website under the FSTF webpage, Exposure Drafts section.

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

Receivership and Insolvency (E) Task Force March 4, 2025, Minutes 9-908

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Draft: 3/11/25

Receivership and Insolvency (E) Task Force
Virtual Meeting
March 4, 2025

The Receivership and Insolvency (E) Task Force met March 4, 2025. The following Task Force members participated: Ann Gillespie, Chair, represented by Kevin Baldwin (IL); Glen Mulready, Vice Chair, represented by Donna Wilson (OK); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Ryan Donaldson (AL); Alan McClain represented by Mel Andersen and Julie Benafield Bowman (AR); Richardo Lara represented by Rommel Adao (CA); Michael Conway represented by Steven Giampaolo (CO); Andrew N. Mais represented by William Arfanis (CT); Michael Yaworsky represented by Yamile Benitez-Torviso (FL); Doug Ommen represented by Kim Cross (IA); Vicki Schmidt represented by Barbara Rankin (KS); Sharon P. Clark represented by Russell Coy (KY); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Angela L. Nelson represented by Shelley Forrest (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Alexia Emmermann (NV); Judith L. French represented by Kelly Mihocik (OH); Andrew R. Stolfi represented by Teresa Borrowman (OR); Michael Humphreys represented by Laura Lyon Slaymaker (PA); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jessica Barta (TX); Patty Kuderer represented by Barb Bowen (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2024 Fall National Meeting Minutes

Malm made a motion, seconded by Slaymaker, to adopt the Task Force's Nov. 18, 2024, minutes (*see NAIC Proceedings – Fall 2024, Receivership and Insolvency (E) Task Force*). The motion passed unanimously.

2. Received the Report of the Receivership Financial Analysis (E) Working Group

Wilson said the Receivership Financial Analysis (E) Working Group will meet March 23 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss companies in receivership and related topics.

Phifer made a motion, seconded by Wake, to receive the report of the Receivership Financial Analysis (E) Working Group. The motion passed unanimously.

3. Heard a Report on International Resolution Activities

Wake said that in December 2024, the International Association of Insurance Supervisors (IAIS) Resolution Working Group adopted revisions to Insurance Core Principle (ICP) 12 (Exit from the Market and Resolution) and ICP 16 (Enterprise Risk Management for Solvency Purposes) and the associated standards within Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). The NAIC contributed many constructive comments to the process. NAIC guidance in this area has been updated to conform with these ICP and ComFrame changes.

Wake said he is participating in the IAIS Resolution Working Group's drafting group, which is reviewing and updating the *Application Paper on Recovery Planning* and the *Application Paper on Resolution Powers and Planning*. The IAIS Resolution Working Group will meet in April.

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Wake said he will be participating in the third targeted jurisdictional assessment (TJA) member review panel. Resolution and resolution planning have been a significant issue in the TJA process. The U.S. was in the first round of the TJA, and six additional countries were in the second round of the TJA.

4. Received an Update on Receivership Matters

Jane Koenigsman (NAIC) said the *Financial Analysis Handbook* has been updated for revisions within the supervisory college chapter related to recovery and resolution planning in line with the changes Wake discussed related to ICPs 12 and 16. The *Directory of Receivership and Runoff Resources* has been published and is available on the NAIC website. The Global Receivership Information Database (GRID) web page has been updated to include links to the NAIC's insurance data services and a state insurance department receivership contacts list. NAIC legal staff will be tracking states' adoption of recent amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) related to cybersecurity and restructuring, which will be posted to the NAIC website later in March.

Having no further business, the Receivership and Insolvency (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/RITF/2025 Spring NM/RITF_Minutes_030425.docx

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REINSURANCE (E) TASK FORCE

Reinsurance (E) Task Force March 4, 2025, Minutes 9-912
Slides on CID Reinsurance Question Regarding the Application of Appendix A-791, Paragraph 2.e. (Attachment One) 9-917

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Draft: 3/13/25

Reinsurance (E) Task Force
Virtual Meeting
March 4, 2025

The Reinsurance (E) Task Force met March 4, 2025. The following Task Force members participated: Ricardo Lara, Chair, represented by Monica Macaluso (CA); Scott Kipper, Vice Chair (NV); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Peter M. Fuimaono represented by Elizabeth Perri (AS); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Ainsley Hurley (FL); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Grace Arnold represented by Ben Slutsker and Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Jon Godfread represented by Matt Fischer (ND); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Andrew R. Stolfi represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Amy Garcia (TX); Jon Pike represented by Cambria Shore (UT); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its 2024 Fall National Meeting Minutes

Rehagen made a motion, seconded by Lloyd, to adopt the Task Force's Oct. 24, 2024, minutes (*see NAIC Proceedings—Fall 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Received a Status Report and Heard Comments on the Life Actuarial (A) Task Force's AAT Project

Macaluso stated that a project has been ongoing for the past two years at the Life Actuarial (A) Task Force that would require asset adequacy testing (AAT) to be performed using a cash flow testing methodology for life and annuity reinsurance transactions. She stated that this project was proposed by several state insurance regulators and recommends changes to the AAT methodology for the assets that support reinsurance transactions. She stated that this project had been discussed publicly during several Life Actuarial (A) Task Force meetings and noted that there were substantial discussions during those meetings.

Andersen stated that the Life Actuarial (A) Task Force met several times over the past months to discuss the AAT project. He stated that the regulatory focus of the project is on gaining insight into reserve adequacy when business is ceded, with a particular focus on U.S. policyholders. He noted that reinsurance may result in a lowering of transparency in terms of the amount of reserves held and the types and risks associated with the assets supporting reserves. He stated that there has been a high level of consensus between regulators and interested parties at this point in the process.

Andersen stated that the primary goals of this project are to provide U.S. state regulators with what is needed to review the reserves and solvency of U.S. life insurers, to steer clear of conflicts with reciprocal jurisdictions and covered agreement issues, and to prevent extra work by U.S. ceding companies where there is immaterial risk. He noted that the actuarial guideline will be disclosure only but noted that companies may view the results of the analysis and decide to post additional reserves and that domestic regulators will continue to have the right to

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require additional analysis and reserves. He noted that after the first year of analysis, the Life Actuarial (A) Task Force may reopen discussion of the project if deemed to be necessary.

Andersen noted that the Life Actuarial (A) Task Force is currently focused on scope and materiality thresholds and noted that there is likely to be some flexibility in the way that this analysis is conducted. He noted that the Task Force is also looking at the appropriateness of alternative types and forms of analysis. Andersen provided an updated timeline on the project, noting that the group plans for the potential adoption of the new actuarial guideline in May 2025 at the Life Actuarial (A) Task Force, with adoption by the Life Insurance and Annuities (A) Committee in the summer.

Karalee Morell (Reinsurance Association of America—RAA) noted that the Life Actuarial (A) Task Force has not yet addressed issues related to the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement) and the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (UK Covered Agreement) because the project is taking a disclosure-only approach.

Morell noted that the RAA and its members continue to be concerned about potential covered agreement implications, even if the adoption is disclosure only. She stated that as it is currently drafted, the most recent proposal would require duplicative regulatory disclosure for some of RAA's members located in Europe, which is inconsistent with the principles of the EU and UK Covered Agreements, even if disclosure is all that is required. She urged the Reinsurance (E) Task Force and Life Actuarial (A) Task Force to allow a full discussion of these issues now, either through a dedicated exposure of that topic or through a dedicated Life Actuarial (A) Task Force or subgroup call on these issues or both. Resolution of these concerns is critical given the importance of maintaining the EU and UK Covered Agreements. Additionally, she noted that the European Insurance and Occupational Pensions Authority (EIOPA), the Bermuda Monetary Authority (BMA), and other regulators are actively considering regulatory action with respect to asset-intensive transactions and that the NAIC should take no action that might conflict with the EU and UK Covered Agreements or trigger parallel regulatory action inconsistent with the principles underlying those agreements. Jeff Altman (RAA) agreed with Morell's statement.

Dan Schelp (NAIC) noted that there have not been specific discussions with the Federal Insurance Office (FIO), but they are monitoring this ongoing project.

Andersen asked if the RAA could provide any specific information related to their concerns about potential conflicts with the EU and UK Covered Agreements. Morell responded that she would provide some examples later.

Wake noted agreement with avoiding any duplicative and burdensome disclosures.

Jason Kehrberg (American Academy of Actuaries—Academy) stated that he supports the disclosure-only language and stated that it is reasonable for the appointed actuary to perform a mandatory run of cash flow testing where the starting asset amount equals the post-reinsurance result and alternative runs at the option of the appointed actuary that may use higher starting asset amounts. He also noted support for enhancing the examples further or adding additional examples. He noted that one comment on the scenarios that were required in the current guideline was the New York Seven scenarios that many companies used for their cash flow testing, which are required in New York, and suggested that in some situations, the appointed actuary be allowed to use other scenarios if they feel they can demonstrate they do a better job of stressing the risky aspects of the treaty.

Peter Gould (Retired) stated that he is a retiree and end user of insurance products. He said he depends on annuity income for a substantial portion of his retirement income. He recommended regulations that can be used proactively and effectively to prevent the impairment of solvency so the contractual obligations to policy owners

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are paid. He noted concern with the limited scope of this project at this point and suggested some sort of asset adequacy grading system that would be added to the consumer information search financial disclosures.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He agreed with the comments from the RAA. He noted that the ACLI is proposing a simplified version of this guideline that still meets the spirit of this effort with a focus on mandating that the appointed actuary provide a suitable assessment of the reinsurance-related exposures and risks associated with the transactions that they are entering. Specifically, this assessment should address the identified risks and what mitigating factors are in place and then allow for alternative forms of analysis or submissions. He agreed with Andersen's comment about including flexibility in the first year. He suggested that the appointed actuary should have flexibility around this analysis, as should the domestic regulator. He requested that the scope be limited to 2020 and later policies. He noted the technical issues with the introduction of the concept of an associated party, which is similar to the existing known statutory concept of an affiliate party but would potentially go further at a lower ownership control level.

Greg Mitchell (Cayman International Reinsurance Companies Association—CIRCA) noted that Cayman reinsurers are unauthorized and required to be fully collateralized under the *Credit for Reinsurance Model Law* (#785), adding that there is often a level of over-collateralization in these arrangements that will further protect the ceding insurers. He stated that the collateral and not the reinsurer's reserve should serve as the starting point of any kind of AAT.

Patricia Matson (Risk & Regulatory Consulting—RRC) stated that the driver of this project was a small number of transactions where the invested assets declined dramatically pre- and post-transaction, so there is less to protect the consumer. She agrees with a risk-focused approach. She noted that disclosure alone will not necessarily protect consumers, so a long-term solution that focuses on protecting consumers should be put in place.

3. Adopted the Report of the Reinsurance Financial Analysis (E) Working Group

Kaumann stated that the Reinsurance Financial Analysis (E) Working Group met Nov. 29, 2024, and Dec. 19, 2024, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 97 reciprocal jurisdiction reinsurers and 40 certified reinsurers for passporting and that 49 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the certified and reciprocal jurisdiction reinsurer web page.

Kaumann made a motion, seconded by Eft, to adopt the report of the Working Group. The motion passed unanimously.

4. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Wake stated that the Working Group last met Oct. 24, 2024, in regulator-to-regulator session pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, where the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

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5. Discussed Ongoing Projects at the NAIC Affecting Reinsurance

Jake Stultz (NAIC) stated that in 2023, the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies they regulate. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group. Stultz noted that the Macroprudential (E) Working Group will also continue to focus on its 13 considerations and that a major focus of their work will be on cross-border reinsurance.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its second year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers AAT for life insurers, but he noted that the Task Force's primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the EU Covered Agreement and the UK Covered Agreement. He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, including actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force. The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals are being addressed by the Statutory Accounting Principles (E) Working Group.

Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Spring National Meeting. Additionally, the Statutory Accounting Principles (E) Working Group received a referral from the Financial Analysis (E) Working Group that recommended a project that focuses on investment concentrations with affiliated and related parties and that a new agenda item is planned for the Spring National Meeting.

6. Heard Discussion of a Reinsurance Contract Question

Chou noted that he had received some questions regarding a reinsurance transaction where Appendix A-791 of the *Accounting Practices and Procedures Manual* (AP&P) is not being applied consistently.

Sheldon Summers (Claire Thinking Inc.) introduced slides (Attachment One) and provided background information and discussion on the transactions and the implications of the various outcomes where Appendix A-791, Section 2.e., is applied inconsistently, noting that Appendix A-791 covers life and health reinsurance risk transfer requirements and specifies conditions which would result in disallowance of reinsurance credit under a reinsurance agreement. He noted that the question is about situations where the reinsurance agreement involves a possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies, and whether it is improper for a ceding insurer to pay reinsurance premiums or other fees or charges to a reinsurer that are greater than the direct premiums collected by the ceding insurer.

Chou requested that any regulators or interested parties who have thoughts on this subject contact him after the Task Force meeting.

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Alton asked if this topic should be discussed at the Statutory Accounting Principles (E) Working Group. Stultz stated that since this was a reinsurance topic, this Task Force was an appropriate place to discuss this topic since it is an open forum but that it could be discussed at the Statutory Accounting Principles (E) Working Group as needed.

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

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CID Reinsurance Question

ACCOUNTING REQUIREMENT 2.e OF APPENDIX A-791

Appendix A-791 identifies the following condition in a reinsurance agreement as non-compliant:

"The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the ***reinsured policies****. For example, it is* ***improper*** *for a ceding company to pay* ***reinsurance premiums****, or other fees or charges to a reinsurer which are* ***greater than*** *the* ***direct premiums collected*** *by the ceding company."*

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CID Reinsurance Question

If a rider to a policy provides a guarantee regarding the amount of the policy benefits in exchange for the payment of a rider fee, how should the term "***reinsured policies***" be interpreted when ***only the rider is reinsured***?

Interpretation 1: The reinsured policy is the rider. In this case, the rider fee would be compared to the reinsurance premium to determine whether condition 2.e of Appendix A-791 exists.

Interpretation 2: The reinsured policy is the base policy and the rider together. In this case the rider fee plus some income, e.g. fees and/or investment margin, from the base policy would be compared to the reinsurance premium.

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Arguments for Interpretation 1

Arguments supporting the reinsured policy being the rider.

a) Only the rider is reinsured, and therefore "Direct premiums" should only be comprised of rider fees. Revenue from the base policy should not be considered because the base policy is not reinsured.

b) **Accounting Requirement 2.f requires that a treaty transfer all significant risk inherent in the business being reinsured.** If a portion of base policy income was included in satisfying 2.e., then at least such portion of base policy risks should be transferred by the treaty; but it is not since the base policy is not reinsured. Only the rider is reinsured.

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Arguments for Interpretation 2

Arguments supporting the reinsured policy being the rider and the base policy combined.

a) If the base policy and rider are priced together, then at least a portion of the income from the base policy should be included in the "income realized from the reinsured policies".

b) The riders would not exist without the base policies. Therefore, the base policies should be included in the reference to "reinsured policies" in Accounting Requirement 2.e.

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RISK RETENTION GROUP (E) TASK FORCE

The Risk Retention Group (E) Task Force did not meet at the Spring National Meeting.

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VALUATION OF SECURITIES (E) TASK FORCE

Valuation of Securities (E) Task Force March 25, 2025, Minutes 9-924
Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Require Private Letter (PL) Rationale Reports to be Filed Within 90 Days of an Affirmation, Update, or Change (Attachment One) 9-929
Amendment to the P&P Manual to Require that PL Rationale Reports Possess Analytical Substance (Attachment Two) 9-931

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Draft: 4/3/25

Valuation of Securities (E) Task Force
Indianapolis, Indiana
March 25, 2025

The Valuation of Securities (E) Task Force met in Indianapolis, IN, March 25. 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Andrew N. Mais, Vice Chair, represented Ken Cotrone (CT); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Laura Clements (CA); Michael Yaworsky represented by Ray Spudeck and Carolyn Morgan (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by John Turchi (MA); Marie Grant represented by Gilbert Mendoza and Greg Ricci (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by Danielle Smith (MO); Jon Godfread represented by Matt Fischer and Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf and Nakia Reid (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Ryan Rowe (OK); Michael Humphreys represented by Diana Sherman (PA); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Amy Garcia (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2024 Fall National Meeting Minutes

Garn made a motion, seconded by Clements, to adopt the Task Force's Nov. 17, 2024, minutes *(see NAIC Proceedings – Fall 2024, Valuation of Securities (E) Task Force)*. The motion passed unanimously.

2. Exposed Two Proposed P&P Manual Amendments

Mears said the next two items on the agenda would be discussed together and considered for exposure. The first item is a proposed *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendment to require the filing of private rating letter rationale reports within 90 days of an affirmation, update, or change. The second item is a P&P Manual amendment to require that private rating letter rationale reports possess analytical substance.

Charles Therriault (NAIC) said that since Jan. 1, 2024, all private letter (PL) securities (other than waived submission PL rating securities) have required a corresponding "private rating letter rationale report" to be filed with the Securities Valuation Office (SVO) in order to be eligible for the filing exemption (FE) process. The first proposed amendment establishes a deadline of 90 days to submit a new or updated private rating letter rationale report following the date of any annual or mid-year rating affirmation, confirmation, or change. If the private rating letter rationale report is not filed during that time, the security would become ineligible for FE. The security could become eligible for FE again when the SVO receives the private rating letter rationale report related to such rating action. Making this a daily process should avoid a repeat of this past year-end when a very large number of private ratings were unsupported by a required rationale report.

The second proposed amendment is focused on satisfying the intent of the policy to submit private rating letter rationale reports. As defined in the P&P Manual, "*The phrase "private rating letter rationale report" means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP.*" Unfortunately, the SVO has received rationale report filings that do not meet this minimum expectation.

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To enable the SVO to better monitor credit rating provider (CRP) analysis for privately rated securities, which are otherwise opaque, the SVO recommends clarifying language that insurers are required to file a full private rating letter rationale report that contains sufficient analytical substance to enable an independent party, like the SVO, to form an opinion of the basis for a CRP's assessment of investment risk for any annual or mid-year rating action, affirmation, confirmation, or change, even if the CRP's own policies do not require a full analysis. Additionally, the analysis will be no less comprehensive than the work product that a CRP would produce for a similar publicly rated security.

The SVO believes the first proposed amendment will help it operationally by spreading the flow of the large volume of private rating letter rationale reports across the year, and the second proposed amendment will help clarify the expectations of the rationale reports' content. Neither proposed amendment is being viewed as a material change, and the SVO recommends a 30-day comment period.

Christopher Anderson (Anderson Insights) said the standards for private and public securities by the rating agency are the same. He said that what is being seen here is an effort to conform to the private and public securities. There are instances, as referred to in the second proposal, where a rating agency would not deem it necessary to do a new rating rationale. However, that does not mean that: 1) the rating agency would not have conducted its surveillance; 2) the rating agency would not have reported the new rating to the NAIC through the data feed; or 3) the rating agency would not submit a new rating letter. The rating agency is asked to submit a new rating rationale even in an instance where it ordinarily would not. That means that a rating agency would be in the position of thinking that since nothing has changed, it can just change the date and send a new rating rationale or put a banner at the top of the rating rationale saying there were no material changes. The rating agency could also send a note to the SVO saying there were no changes. As a result, the savings would not be to the rating agency, as it will conduct surveillance in any event. The savings would be to the SVO, which is beginning to acquire thousands and thousands of rating rationales that it has never acquired before. Imposing the requirement that a rating rationale be submitted every year, regardless of whether it is thought to be necessary by the rating agency, imposes a burden on the SVO and insurers. Insurers are struggling with the requirement that they provide these rating rationales, where, ideally, rating rationales would come directly from the rating agencies to the SVO and be done on a machine-to-machine basis. Therefore, the only time an insurer would need to get involved is if there were exceptions.

Therriault said it is key that what the SVO receives aligns with the other information it has. Rating rationale reports are also evidence that there has been an annual review in some capacity, and the rating itself must show that it was reviewed. The rationale report, consistent with what the SVO does on an annual basis, is evidence that the rating was reviewed, hence the reason for the requirement. Anderson replied that U.S Securities and Exchange Commission (SEC) Rule 17g- 7(a) requires that. Secondly, the rating letter that is submitted is evidence that the rating is current. If a rating is under surveillance, then it is a demonstrated fact. However, rating agencies might want to weigh in on this matter.

Mears said in regard to the comment about reducing the workload of the SVO that if a new rating letter has been submitted with a new date and there is not a corresponding rationale, the SVO would have to go in and review it to see that there was no change, versus only looking at exceptions where a rationale does not exist, to see that there might be some sort of automatic removal for the FE rating. Mears said that would increase the SVO's workload rather than decrease it. Mears asked Mr. Anderson to put these comments in writing. CRPs' comments are also welcome so the Task Force can review them prior to adoption.

Mears directed NAIC staff to expose the two proposed P&P Manual amendments (Attachment One and Attachment Two) for a 30-day public comment period ending April 25

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3. Received a Report from the SVO on the Status of Private Rating Letter Rationale Report Filings for 2024

SVO staff informed the Task Force at the 2024 Fall National Meeting that the system functionality necessary to accurately identify which privately rated securities were missing a required rationale report in the NAIC systems, VISION and AVS+, was now operational, and the status of each security was published in the AVS+ valuation file. For the past two years, the SVO has recommended deferring the removal from FE privately rated securities that did not have the required supporting private rating letter rationale report submitted to the SVO because of the needed system functionality, which had not yet been implemented.

Marc Perlman (NAIC) said, as previously mentioned, that since Jan. 1, 2024, all privately rated securities, other than waived submission PL rating securities, have required a corresponding private rating letter rationale report to be filed with the SVO to be eligible for the FE process. 2024 was the first year that NAIC systems were sufficiently enhanced to make the FE classification changes. As reported at the 2024 Fall National Meeting, as of Nov. 11, 2024, the SVO had identified 1,636 privately rated securities missing a required rationale report. That number declined to 853 by Dec. 31, 2024. By Feb. 27, 2025, the number of missing required rationale reports was down to 494, and by March 3, when the policy to remove privately rated securities with a missing rating rationale report from FE was applied, the number was down to 346 impacted securities. Those privately rated securities can be reinstated if an insurer submits the missing rationale report for 2024 or provides one for 2025. The private rating and supporting rationale report are needed each year.

As these numbers indicate, a large number of submissions were made over the last few months. As Therriault mentioned while discussing the proposed rationale report filing deadline amendment, the SVO would like to spread this filing volume out over the entire year by setting a reasonable submission deadline for the filing of private rating letter rationale reports.

4. Received an Annual Report from the SVO on 2024 Carry-Over Filings

Therriault said as required in Part Two of the P&P Manual (Operational and Administrative Instructions Applicable to the SVO), the SVO director must prepare a report for the Spring National Meeting identifying an acceptable annual rate of carry-over filings for the year-end reporting period. These carry-over filings can be identified with the administrative symbols "IF," which are initial filings that are self-assigned, and "YE," which are annual updates where the designation has been extended from the prior year.

For 2024, the SVO reviewed 19,443 filings composed of 4,480 initial filings, 14,685 annual updates, 3 appeals, 253 material changes, and 22 renumbering requests (e.g., Committee on Uniform Security Identification Procedures [CUSIP] changes). In comparison, in 2023, the SVO reviewed 15,549 filings composed of 3,893 initial filings, 11,257 annual updates, 12 appeals, 366 material changes, and 21 renumbering requests. This was a 25% overall increase, primarily due to a 112% increase in PL rating-related filings in 2024.

The total number of 2024 filings includes 8,229 manually processed PL ratings, which were composed of 3,083 ratings, 4,812 rationale reports that were not billed, and 334 filings that were rejected. That is a significant increase compared to 2023, when there were 3,879 manually processed private rating letters that comprised 2,407 ratings, 1,305 rationale reports that were not billed, and 167 filings that were rejected. The most common reasons for private rating letter rejections in 2024 were: 13% for preliminary/provisional rating; 13% for PLR only for a rationale report filing; 13% for security not identified; 11% for duplicate filing; 10% for prior year; 8% for insufficient content; 7% for filer-requested rejection; 7% for wrong security; 7% for public rating; 7% for wrong CRP; and 6% for expired information request.

There were 1,496 carry-over filings for year-end 2024 compared to 1,262 in 2023 and 1,199 in 2022. The carry-over filings comprise 364 IFs for initial filings and 1,132 YEs for accepted annual updates. This represents a carry-over rate of 7.5% for 2024, which is slightly lower than the 2023 carry-over rate of 8.1%. As of March 5, when the report was prepared, there were 398 carry-over filings remaining. As of March 18, there were 268 carry-over filings remaining.

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Generally, a carry-over rate of 10% or higher would be an indication that there is an analytical resource constraint issue for the SVO. The higher number of PL rating filings is now distorting the overall carry-over percentage. Excluding PL rating filings, the carry-over percentage for traditional SVO filings of was 13.3% for 2024 and 10.8% for 2023. The growing carry-over rate for non-PL rating filings reflects increasing demands on the office that require additional resources, which is why the Task Force is being alerted and the reason for this annual report.

The carry-over rate does not provide any insight into the technology resource needs of the SVO team. The SVO made sufficient progress on PL rating processing to recommend applying the Task Force's policy to remove it from FE, as just occurred in March. The PL rating work included adding technology that enabled an SVO analyst to match private rating letter rationale reports to the private ratings received via electronic feeds. For further reporting on the status of private rating rationale, reports are needed for insurers and will be worked on in 2025. The NAIC implemented multi-factor authentication (MFA) for the SVO's applications, VISION and AVS+. While there was some initial foundational work to permit multiple security identifiers (e.g., International Securities Identification Numbers [ISINs]) utilizing S&P Global Ratings' business entity cross reference service (BECRS) and global identifier cross reference service (GICRS) in 2023, full functionality has not been achieved and that work needs to continue. Other initiatives, such as improving the efficiency of handling the documents received by insurers, improving overall filing efficiency, completing ratings history, and electronically delivering private rating letter rationale reports, have not begun. Several new technology resources were approved in the 2024 budget, but the department needs additional technology resources.

5. Received an NAIC Staff Report on Statutory Accounting Principles (E) Working Group Projects

Julie Gann (NAIC) highlighted a few items from the Statutory Accounting Principles (E) Working Group's March 24 discussion, including that the bond definition was in effect Jan. 1, 2025. Gann said that, as a reminder, there is a transition disclosure that should be completed in the first quarter financial statements, details of which are captured in *SSAP No. 26—Bonds*. For those items that move from Schedule D to Schedule BA, there are six reporting lines for those that are captured on the non-bonded securities with an SVO designation that must come from the SVO. A CRP rating cannot be utilized for those reporting lines. Next, with regard to investments and tax credits, that guidance was also in effect Jan. 1, 2025. Under that guidance, an investment in a tax credit structure that predominantly provides tax benefits or other tax credit-type items is captured in *SSAP No. 93—Investments in Tax Credit Structures*. There are new reporting lines to capture those items. Under the old guidance, a CRP rating was a factor in classification that is no longer a factor with regard to those reporting lines.

The Working Group adopted the collateral loan agenda item, which breaks out the reporting of collateral loans into six more granular lines to look at the underlying collateral. That item is currently exposed at the Blanks (E) Working Group for a comment period ending April 29. A call is scheduled for May 29 to propose a Jan. 1, 2026, effective date. The Working Group is looking at the investment subsidiary category that's a reported-on D-6-1 and flows through to risk-based capital (RBC). That discussion was deferred during the Working Group's call. Instead, the Working Group is looking at a project for residential mortgage loans that are held in trust, which seems to be the key driver of the increase of things reported as investment subcategories. It is asking if other common structures are being reported as investment subcategories that are brought to NAIC staff attention so they can be looked at because there is going to be a review of whether that investment subcategory should be retained.

Next, the Working Group proposed to delete the capital structure code that is currently captured on Schedule D-1-1 and Schedule D-1-2. That code originally came from the Task Force many years ago. It is the reporting of whether an investment is secured, senior, or unsecured. There are inconsistencies in that reporting data and a lot of questions. Working with the SVO, Financial Regulatory Services (FRS) staff realized that that information is not being used from Schedule D, although that information could be used since it comes from the data feeds. The Working Group proposes to remove the Schedule D data if no one is using it. The key thing

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is to make sure none of the regulators are using that information. Gann asked Task Force members to let FRS staff know if this field is being used. The change is exposed until May 2.

Gann said the last two items were modified coinsurance (modco) and funds withheld assets. The Working Group adopted a restricted asset disclosure to provide more clarity on how those should be reported as restricted assets. There is an exposed Schedule S to detail what those assets are for RBC flow through. The Working Group also exposed another agenda item to identify the modco and funds withheld assets that are affiliated to the reinsurer and then to require note 5L, which is the restricted asset disclosure, both in all quarterly and annual financial statements. Currently, it is only required in the annual financial statements. It is supposed to be included in the quarterly if there have been significant changes, but it is proposed to be required in all instances.

Lastly, there has been much discussion regarding interest maintenance reserve (IMR), which is the result of realized gains and losses from noncredit-related investment sales. This item has been exposed multiple times, and the IMR Ad Hoc Group meets every other week. Those exposures are posted on the Working Group's web page.

6. Received an SSG Staff Report on the Proposed CLO Modeling Methodology and the CLO Ad Hoc Group

Eric Kolchinsky (NAIC) said the Collateralized Loan Obligation (CLO) Ad Hoc Group plans to meet April 2. Kolchinsky said the call is open, so any interested parties should let SSG staff know if they have not received an invitation. The SSG posted new results on the CLO web page using the three-bucket reinvestment methodology, which was proposed by an interested party. The methodology has been incorporated, and the results are available on the SSG's website, dated March 1, 2025. Lastly, the SSG continues its productive collaboration with the American Academy of Actuaries (Academy). NAIC staff participate in weekly calls and will continue to support the effort to ensure that the methodologies dovetail.

Mears said those projects remain coordinated and will be looked at as a complete package for ultimate recommendation, exposure, adoption, and implementation once complete.

Having no further business, the Valuation of Securities (E) Task Force adjourned.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/Minutes/VOSTF_2025-03-25_Spring_NM_Minutes v6 (Fina).docx

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TO:	Carrie Mears, Chair, Valuation of Securities (E) Task Force Members of the Valuation of Securities (E) Task Force
FROM:	Charles A. Therriault, Director, NAIC Securities Valuation Office Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau
RE:	Proposed Purposes and Procedures Manual Amendment to Provide a Deadline for the Filing of Private Rating Letter Rationale Reports
DATE:	March 4, 2025

Summary: Since January 1, 2024, all PL securities (other than waived submission PLR securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the "P&P Manual")) have required a corresponding "private rating letter rationale report" to be filed with the SVO in order to be eligible for the Filing Exemption process. Based on ongoing discussions with Task Force chairs and industry, the SVO proposes the following amendment to the P&P Manual to clarify when a private rating letter rationale report needs to be filed with the SVO to prevent a security from becoming ineligible for Filing Exemption and the related Filing Exemption-derived NAIC Designation from becoming de-activated.

Recommendation – The SVO recommends allowing a grace period of 90 days from the date of any annual, or mid-year, rating affirmation, confirmation or change, for a new or updated private rating letter rationale report to be filed with the SVO, through the feed or otherwise. If the private rating letter rationale report is not filed during that time, the security would become ineligible for Filing Exemption. The security could again become eligible for Filing Exemption at such time as the SVO receives the private rating letter rationale report related to such rating action.

Proposed Amendment –The proposed changes to the current P&P Manual are shown below with additions in red underline font color, and deletions in ~~red strikethrough~~.

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PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

PL SECURITIES

…

Producing NAIC Designations for PL Securities

21. The SVO shall produce NAIC Designations for securities subject to private letter ratings as follows:

    - The insurance company shall file a copy of the private rating letter with the SVO if not included in the applicable NAIC CRP Rating feed(s) (or other form of direct delivery from the CRP) noted above in Conditions to Filing Exemption for PL Securities and the supporting private rating letter rationale report, if the SVO has not received it directly from the CRP, within the initial filing deadline for newly acquired securities or securities in transition (as explained in "SVO Analytical Department Symbols" in Part Two of this Manual) and each calendar year thereafter along with any changes in PL Securities rating. In instances where the **PL** security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure for Filing Exempt (FE) securities only after the SVO receives both the private rating letter and private letter rationale report either directly or through a NAIC CRP Rating feed(s), and the SVO deems the privately rated security eligible to receive an NAIC Designation with an NAIC CRP Credit Rating.
    - The SVO must receive a private rating letter rationale report supporting the assigned private rating no later than 90 days following the date of an annual rating update, any rating affirmation or confirmation, or any rating change, otherwise the SVO will mark the security as ineligible for Filing Exemption. The security can again become eligible for Filing Exemption at such time as the SVO receives the private rating letter rational report related to such rating action for that filing year.

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https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/03-PLR RationaleReportFiling/2025-001.01 PP_Manual_PLRationaleFiling.docx

SVO

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO:	Carrie Mears, Chair, Valuation of Securities (E) Task Force Members of the Valuation of Securities (E) Task Force
FROM:	Charles A. Therriault, Director, NAIC Securities Valuation Office Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau
RE:	Proposed Purposes and Procedures Manual Amendment to Require Private Rating Letter Rationale Reports to Contain Analytical Substance
DATE:	March 4, 2025

Summary: Since January 1, 2024, all PL securities (other than waived submission PLR securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the "P&P Manual")) have required a corresponding "private rating letter rationale report" to be eligible for the Filing Exemption process. Based on ongoing discussions with the Task Force chairs and industry, the SVO proposes the following amendment to the P&P Manual to clarify what is expected for a private rating letter rationale reports filed with the SVO.

As defined in the P&P Manual in Part Three, paragraph 13, *"The phrase "private rating letter rationale report" means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP."* Unfortunately, the SVO has received rationale report filings that do not meet this minimum expectation.

Recommendation – Private rating letter rationale reports should possess sufficient analytical content that an independent party can form their own opinion as to a NAIC credit rating providers' ("CRPs") assessment of investment risk. To enable the SVO to better monitor CRP analysis for privately rated securities, which are otherwise opaque, the SVO recommends requiring insurers to file a full private rating letter rationale report that contains sufficient analytical substance to enable an independent party to form an opinion as to the investment risk for any annual, or mid-year, rating action, affirmation, confirmation, or change, even if the CRP's own policies do not require a full analysis.

Proposed Amendment –The proposed changes to the current P&P Manual are shown below with additions in red underline font color, and deletions in ~~red strikethrough~~.

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PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

PL SECURITIES

…

Definitions

13. For purposes of this section:

…

- The phrase "private rating letter rationale report" means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP. A private rating letter rationale report ~~should mirror~~ shall be no less comprehensive than the work product that a CRP would produce for a similar publicly rated security and always include sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP's assessment of investment risk.

…

Producing NAIC Designations for PL Securities

21. The SVO shall produce NAIC Designations for securities subject to private letter ratings as follows:

- The insurance company shall file a copy of the private rating letter with the SVO if not included in the applicable NAIC CRP Rating feed(s) (or other form of direct delivery from the CRP) noted above in Conditions to Filing Exemption for PL Securities and the supporting private rating letter rationale report, if the SVO has not received it directly from the CRP, within the initial filing deadline for newly acquired securities or securities in transition (as explained in "SVO Analytical Department Symbols" in Part Two of this Manual) and each calendar year thereafter ~~(so long as such rationale update would normally be produced by the CRP for a comparable publicly rated security)~~ along with any changes in PL Securities rating. In instances where the PL security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure for Filing Exempt (FE) securities only after the SVO receives both the private rating letter and private letter rationale report either directly or through a NAIC CRP Rating feed(s), and the SVO deems the privately rated security eligible to receive an NAIC Designation with an NAIC CRP Credit Rating.

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https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/03-PLR RationaleReportSubstance/2025-002.01 PP_Manual_PLRationaleSubstance.docx

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Financial Regulation Standards and Accreditation (F) Committee March 25, 2025, Minutes 10-2
Memorandum from the Statutory Accounting Principles (E) Working Group Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes (Attachment One) 10-4
Memorandum from the Blanks (E) Working Group Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes (Attachment Two) 10-9
Memorandum from the Financial Examiners Handbook (E) Technical Group Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes (Attachment Three) 10-12
Memorandum from the Capital Adequacy (E) Task Force Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes (Attachment Four) 10-14
Memorandum from the Valuation of Securities (E) Task Force Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes (Attachment Five) 10-17
Memorandum from the Life Actuarial (A) Task Force Regarding Publication Revisions Significant or Insignificant for Accreditation Purposes (Attachment Six) 10-25
Proposed Revisions to the Review Team Guidelines (Attachment Seven) 10-28

Date: 3/29/25

Financial Regulation Standards and Accreditation (F) Committee
Indianapolis, Indiana
March 25, 2025

The Financial Regulation Standards and Accreditation (F) Committee met in Indianapolis, IN, March 25, 2025. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Sharon P. Clark, Co-Vice Chair (KY); Andrew R. Stolfi, Co-Vice Chair (OR); Andrew N. Mais (CT); Vicki Schmidt (KS); Robert L. Carey (ME); Mike Causey represented by Jackie Obusek (NC); Eric Dunning (NE); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Larry D. Deiter (SD); Scott A. White represented by Doug Stolte (VA); and Jeff Rude (WY).

1. Adopted its 2024 Fall National Meeting Minutes

Commissioner Stolfi made a motion, seconded by Commissioner Rude, to adopt the Committee's Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Director Wing-Heier said the Committee also met March 23 in regulator-to-regulator session pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee voted to award continued accreditation to Delaware, Louisiana, and Rhode Island.

2. Adopted its 2024 NAIC Publications

Director Wing-Heier said there are several NAIC publications currently included in the accreditation standards by reference. At each Spring National Meeting, the Committee reviews revisions made to these publications in the prior year. Each of the applicable groups that developed revisions to the publications in 2024 has provided the Committee with a memorandum discussing the revisions, and they indicated whether the revisions should be considered significant or insignificant for accreditation purposes. The publications include the *Accounting Practices and Procedures Manual* (AP&P Manual) (Attachment One), the Annual Statement Blanks and Instructions (Attachment Two), the *Financial Condition Examiners Handbook* (Handbook) (Attachment Three), the Risk-Based Capital (RBC) Formulas and Instructions for Life and Property/Casualty (P/C) Insurers (Attachment Four), the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) (Attachment Five), and the *Valuation Manual* (Attachment Six). The working group or task force responsible for each of these publications has deemed their 2024 changes insignificant to the accreditation process.

Commissioner Stolfi made a motion, seconded by Commissioner Rude, to adopt the revisions deemed insignificant to each of the publications immediately by reference to the accreditation standards. The motion passed unanimously.

3. Exposed Revisions to Review Team Guidelines Proposed by the Risk-Focused Surveillance (E) Working Group

Director Wing-Heier said the Risk-Focused Surveillance (E) Working Group has proposed revisions to review team guidelines in the *Accreditation Program Manual* in response to a referral sent by the F Committee in 2024 requesting additional guidance for the oversight of contractors in examination and analysis functions.

Amy Malm (WI), chair of the Risk-Focused Surveillance (E) Working Group, said revisions to the *Financial Condition Examiners Handbook* and the *Financial Analysis Handbook* have been drafted in response to the Committee

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referral. These revisions include: 1) qualifications for individuals serving as the department designee for examinations and the department financial analyst/supervisor; 2) guidance associated with independence and conflicts of interest when using contracted resources; and 3) confidentiality protections that may be relevant when using contracted resources. Malm said these revisions underwent public exposure and included various refinements resulting from input from interested party groups. As part of this process, the Risk-Focused Surveillance (E) Working Group reviewed and proposed revisions to the review team guidelines within the *Accreditation Program Manual*. These revisions intend to clarify that: 1) contract resources should be included in the consideration of qualified resources used in examination and analysis functions; 2) individuals charged with overseeing the work of contract resources should review the work completed for understanding and assessment of the quality of work performed; 3) certain timeliness requirements associated with the department's review of work either completed or reviewed by contract resources; and 4) additional review expectations associated with the insurer profile summary and group profile summary when contractors are used for supervisory review within the analysis.

Commissioner Stolfi made a motion, seconded by Director Deiter, to expose the proposed revisions to the review team guidelines (Attachment Seven) for a 30-day public comment period ending April 25. The motion passed unanimously.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/F CMTE/2025Spring

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Commissioner Lori K. Wing-Heier, (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee
Commissioner Sharon P. Clark, (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee
Commissioner Andrew Stolfi (OR), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

FROM: Dale Bruggeman (OH), Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark (IA), Vice Chair, Statutory Accounting Principles (E) Working Group

DATE: February 19, 2025

RE: Financial Regulation Standards – As of March 2025 *Accounting Practices and Procedures Manual*

In 2001, the Financial Regulation Standards and Accreditation (F) Committee adopted the *Accounting Practices and Procedures Manual – Effective January 1, 2001, Version 1999* (AP&P Manual) as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Statutory Accounting Principles (E) Working Group has made to the AP&P Manual in 2024 up to the 2025 date of submission for publication. This memo is to provide the customary annual update regarding changes to the AP&P Manual.

Attachment A to this memo includes a detailed listing of the changes made to the AP&P Manual in 2024. (Note that several of the principles-based bond project updates which were adopted in 2023 but effective January 1, 2025, are shown in Attachment A. These items were referenced in last year's memo.) On behalf of the Working Group, it is our opinion that none of these items, either individually or collectively, should be considered "significant" as defined by the financial solvency accreditation standards.

As outlined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* (SAP Policy Statement), modifications will be made to the *AP&P Manual* each year. As such, it will be reprinted with an "as of" date associated with it. For example, the next printing of the AP&P Manual, which encompasses the attached modifications, will be titled *Accounting Practices and Procedures Manual – as of March 2025*. This process allows for an efficient way to update the AP&P Manual and virtually guarantees that users have the latest version. Reprints and updates are necessary because of the evolutionary nature of accounting—in both the statutory accounting principles and the generally accepted accounting principles arenas—and are positive for users of the AP&P Manual.

The Working Group sincerely requests that the Committee consider the items listed in Attachment A as "insignificant" changes to the AP&P Manual. We will continue to notify the Committee of any changes to the AP&P Manual and to advise if, in our opinion, those changes are "significant" by financial solvency accreditation standards.

cc Bailey Henning, Sara Franson, Sherry Shull, Robin Marcotte, Julie Gann, Jake Stultz, Wil Oden and Jason Farr

Https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2025/2024 SAPWG to Accreditation Memo.doc

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Attachment A

Summary of Changes to the *As of March 2024 Accounting Practices and Procedures Manual* included in the As of March 2025 Manual

The following summarizes changes made to the *As of March 2024 Accounting Practices and Procedures Manual* (Manual) and shown in the As of March 2025 version.

Section 1 summarizes revisions that result in a new SSAP or new SAP concept to statutory accounting principles. Revisions that introduce original or modified accounting principles can be reflected in an existing or new SSAP. When revisions that result in a new SAP concept are made to an existing SSAP, the effective date is identified in the Status section, New SSAPs and new SAP concepts that revise existing SSAPs are commonly accompanied by a corresponding issue paper that reflects the tracked revisions for historical purposes. If language in an existing SSAP is superseded, that language is shaded and the new or revised SSAP is referenced. Completely superseded SSAPs and nullified interpretations are included in Appendix H.

Section 2 summarizes revisions that clarify existing statutory accounting principles. These revisions are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. Such revisions are depicted by underlines (new language) and strikethroughs (removed language) and will not be tracked in subsequent manuals. Revisions that clarify existing statutory accounting principles are effective when adopted unless a specific effective date is noted.

Section 3 summarizes revisions to the Manual appendices.

1. Revisions that Resulted in a New SSAP or New SAP Concept – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 2	2023-17	Revisions restrict the investments that are permitted for cash equivalent and short-term reporting. Revisions exclude all Schedule BA long-term invested assets and mortgage loans.
	2024-09	Revisions eliminate references implying that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.
SSAP No. 21	2019-21	Revisions provide guidance for debt securities that do not qualify as bonds under the principles-based bond definition. Revisions prescribe accounting guidance (measurement method) for all residual interests regardless of legal form.
SSAP No. 26	2024-01	Additional revisions to *SSAP No. 26—Bonds* to address debt securities issued by non-SEC registered funds that reflect operating entities can qualify as issuer credit obligations. The guidance requires assessment as to the purpose of the issued debt security and is explicit that debt securities issued for the raising of debt capital are required to be assessed as asset-backed securities.

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SSAP No. 26 SSAP No. 43 Various SSAPs	2019-21	Revisions to *SSAP No. 26—Bonds* and *SSAP No. 43—Asset-Backed Securities* for the principles-based bond definition, the accounting for bonds (issuer credit obligations and asset-backed securities), and revisions to various SSAPs that have been updated to reflect the revised definition and/or SSAP references.
SSAP No. 93	2022-14	Revisions expand guidance within *SSAP No. 93—Investments in Tax Credit Structures* to include tax credit investments regardless of structure and type of state or federal tax credit program.
SSAP No. 94	2022-14	Revisions to *SSAP No. 94—State and Federal Tax Credits* expand guidance to include purchased state and federal tax credits.
2. Revisions that Resulted in a SAP Clarification – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 15	2023-26	Revisions adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements*.
SSAP No. 19	2024-02	Revisions adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*.
SSAP No. 20	2024-03	Revisions adopt, with modification, *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* and nullify *INT 21-01: Accounting for Cryptocurrencies.*
SSAP No. 21	2023-28	Revisions incorporate a collateral loan disclosure for year-end 2024 to detail admitted and nonadmitted collateral loans and the underlying collateral supporting the loan.
SSAP No. 25 SSAP No. 63	2022-12	Revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* address transfers of assets when modifying intercompany pooling agreements. This agenda item also nullifies *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*.
SSAP No. 26	2024-26EP	Adopted revisions to the annual audited disclosure for bonds in paragraph 39.e. of *SSAP No. 26—Bonds* prescribe that the information presented should be by category and subcategory as reported in annual statement Schedule D – Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset-Backed Securities).
SSAP No. 26 SSAP No. 30 SSAP No. 32 SSAP No. 43 SSAP No. 48	2024-08	Revisions to SSAPs to refer to *SSAP No. 21—Other Admitted Assets* for the residual definition and for accounting and reporting guidance.
SSAP No. 34 SSAP No. 48	2022-14	Consistency revisions in response to the changes made to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal*

Attachment A

		Tax Credits.
SSAP No. 48	2024-18	Consistency revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as part of the updates to SSAP No. 93 and 94.
SSAP No. 73	2024-02	Revisions adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common* Control *Arrangements.*
SSAP No. 86	2023-26	Revisions adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements*.
SSAP No. 93 SSAP No. 94	2024-18	Revisions to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* address inconsistencies between the accounting guidance and journal entry illustration.
SSAP No. 97	2023-30	Revisions align the language in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entitie*s, paragraph 24, with the existing guidance provided in paragraphs 26 and 27.
SSAP No. 101	2024-11	Revisions reject *ASU 2023-09, Improvements to Income Tax Disclosures* for statutory accounting purposes and delete the disclosure in *SSAP No. 101—Income Taxes*, paragraph 23.b.
SSAP No. 107	2024-13	Revisions remove the federal Affordable Care Act transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired, and deleted the corresponding sections of the Exhibit B roll-forward illustration.
SSAP No. 108	2024-17	Revisions update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to VM-01.
Various SSAPs	2024-14EP	Editorial revisions to the *Accounting Practices and Procedures Manual* remove "Revised" and "R" identifiers from SSAP titles and SSAP references throughout the Manual.
3. Revisions to the Appendices		
Section	**Reference**	**Description**
Appendix A		No revisions impacting this appendix were adopted in 2024.
Appendix B	INT 24-01 2019-21	*INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers* addresses specific questions related to the implementation of the Principles-Based Bond Project.
Appendix C	AG 51	Revisions to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* clarify this guideline applies to filers of all statement filing types if the AG 51 filing criteria are met.

Attachment A

Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2023-25	*ASU 2023-03, Amendments to SEC Paragraphs*
	2023-27	*ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*
	2024-19	*ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*
Appendix E	2019-21	*Issue Paper No. 169—Principles-Based Bond Definition* documents the discussions and decisions related to the principles-based bond project. The adopted SSAPs impacted are effective January 1, 2025, and should be used as the source of authoritative guidance.
	2024-01	Additional revisions to *Issue Paper No. 169—Principles-Based Bond Definition*, debt securities issued by non-SEC registered funds that reflect operating entities can qualify as issuer credit obligations. The guidance requires assessment as to the purpose of the issued debt security and is explicit that debt securities issued for the raising of debt capital are required to be assessed as asset-backed securities.
Appendix F		No revisions impacting this appendix were adopted in 2024.
Appendix G		No revisions impacting this appendix were adopted in 2024.
Appendix H	INT 03-02 2022-12	Revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* address transfers of assets when modifying intercompany pooling agreements. This agenda item also nullifies *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*.
	INT 21-01 2024-03	Revisions to *SSAP No. 20—Nonadmitted Assets* adopt, with modification, *ASU 2023-08, Accounting for and Disclosure of Crypto Assets,* and nullify *INT 21-01: Accounting for Cryptocurrencies.*

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Lori K. Wing-Heier, Chair
Financial Regulation Standards & Accreditation (F) Committee

FROM: Roy Eft, Chair
Blanks (E) Working Group

DATE: January 28, 2025

RE: Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2024. The Blanks Working Group adopts numerous changes to the Annual Statement Blanks and Instructions each year. Most of the changes are made to clarify current requirements or are considered enhancements to existing reporting. The changes adopted in 2024 do not represent a substantive change to any reporting requirements.

I am planning to be present when the Financial Regulation Standards & Accreditation (F) Committee meets in the event any member of the committee wishes to discuss these issues.

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Attachment Two
Financial Regulation Standards and Accreditation (F) Committee
3/25/25

Changes to blanks and instructions adopted during 2024

1. Remove the reference to Identity Theft Insurance from the General Instructions. Remove the interrogatory questions from Part 1 that pertain to Identity Theft Insurance. Remove the column for Identity Theft Insurance from Parts 2 and 3. Remove claims-made and occurrence breakdown, as well as first-party and third-party breakdown from data collection. A cybersecurity insurance policy is generally written on a claims-made basis for the liability sections of the policy; therefore the breakdown is unnecessary. Additionally, most cybersecurity policies include both first-party and third-party coverage, so the breakdown does not provide significant data, as it is not an either/or situation. Remove the question in the interrogatories regarding tail policies. This has provided no meaningful information, due to the way cybersecurity insurance policies are written. Create state level transparency. (2023-05BWG Modified) Effective Dec. 31, 2024
2. Categorize debt securities on Schedule BA that do not qualify as bonds under SSAP No. 26 – Bonds or SSAP No. 43R – Asset-Backed Securities and are captured in scope of SSAP No. 21R – Other Invested Assets. (2023-12BWG Modified) Effective Jan. 1, 2025
3. Add new instruction and illustration under Note 5 – Investments for Net Negative (Disallowed) Interest Maintenance Reserve (IMR)and a new general interrogatory for a company attestation. **BWG Editorial moved this to Note 21J** (2023-13BWG Modified) Effective Dec. 31, 2024
4. Revise the Health Test Language and General Interrogatories to clarify and create better transparency in the calculation of the premium and reserve ratios in the health test. (2023-14BWG Modified) Effective Dec. 31, 2024
5. Add a new General Interrogatory to provide needed information for completing the C-2 mortality risk in the Life Risk-Based Capital (RBC). (2023-15BWG Modified) Effective Dec. 31, 2024
6. Change Schedule P to show 10 years of data and a "prior" row for all lines of business beginning in 2024. This modifies requirements for seven lines of business that currently only show 2 years of data and a "prior" row. (2023-16BWG Modified) Effective Dec. 31, 2024
7. Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (SAPWG Item 2023-23). (2024-01BWG) Effective Dec. 31, 2024
8. Update the Investment Schedules General Instructions to identify what should be included in the Other Short-Term and Other Cash Equivalent categories and to add clarity of what should be reported on Schedule BA. (SAPWG Item 2023-17). (2024-02BWG Modified) Effective Jan. 1, 2025
9. Update General Interrogatory 35 for private letter rating security reporting to clarify what should be included. (2024-03BWG Modified) Effective Dec. 31, 2024
10. Add clarifying language to VM-20 supplement to address the inconsistent reporting by companies not including separate account amounts on the supplement. (2024-04BWG) Effective Dec. 31, 2024
11. Add clarifying language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors with discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory. (2024-05BWG) Effective Dec. 31, 2024
12. Property/Casualty Changes: Limit the requirement to send qualification documentation to the Board of Directors only at the initial appointment and not annually thereafter. Title Changes: Update the title instructions so they are more similar to Property/Casualty instructions. (2024-06BWG) Effective Dec. 31, 2024
13. Update the illustration under Note 5S(A) – Investments for Net Negative (Disallowed) Interest Maintenance Reserve (IMR) to add separate account breakout. Add a new general interrogatory for a company attestation for separate accounts. (This goes with adopted Blanks Working Group proposal 2023-13BWG) **BWG Editorial moved this to Note 21J** (2024-07BWG) Effective Dec. 31, 2024
14. Update the Interest Maintenance Reserve and Asset Valuation Reserve instructions for specific allocation guidance for NAIC Designation Changes for Debt Securities (excluding LBSS), Mortgage Loans, and perpetual preferred stocks. (SAPWG agenda items: 2023-15 & 2023-29) (2024-08BWG) Effective Dec. 31, 2024
15. Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral. Add crosscheck between Schedule BA, Part 1 Book Adjusted Carrying Value column and Note 5(T) Total Line. **BWG Editorial moved this to Note 5S** (SAPWG INT 23-28) (2024-09BWG Modified) Effective Dec. 31, 2024

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16. Remove the ACA SSAP No. 107 disclosure on the transitional reinsurance program and the risk corridors program from Note 24E in the Notes to Financials (Note 24F for Property/Casualty) in the Annual Statement Instructions. (SAPWG Item 2024-13). (2024-10BWG Modified) Effective Dec. 31, 2024
17. Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes will be made to: Annual – Assets, Notes to Financial Statements 5K, 14A, and 21E, AVR, and Schedule BA, Part 1, 3, and Verification Between Years. Quarterly changes – Assets and Schedule BA, Part 3 and Verification Between Years. (2024-11BWG Modified) Effective Jan. 1, 2025
18. Update the quarterly investment schedules for editorial items to the bond project. (Sch. D Verification, Sch. D Part 1B, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 1 & 2). Also update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions. (Reference adopted proposal 2023-06BWG) (2024-12BWG Modified) Effective Jan. 1, 2025

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Attachment Three
Financial Regulation Standards and Accreditation (F) Committee
3/25/25

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Eli Snowbarger (OK), Co-Chair, Financial Examiners Handbook (E) Technical Group
John Litweiler (WI), Co-Chair, Financial Examiners Handbook (E) Technical Group

DATE: Feb. 10, 2025

RE: Consideration for Financial Accreditation Standards
2025 *Financial Condition Examiners Handbook*

The *Accreditation Program Manual* (Manual) includes Review Team Guidelines to be used for financial examinations performed using the risk-focused surveillance approach that is found in the NAIC *Financial Condition Examiners Handbook* (Handbook). This memorandum is to update the Financial Regulation Standards and Accreditation (F) Committee (FRSAC) on changes the Financial Examiners Handbook (E) Technical Group has made to the Handbook in 2024.

Modifications are made to the Handbook each year, and a new edition is available annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The Technical Group made several changes to the Handbook in 2024, all of which it considers non-significant; i.e., having no impact on accreditation guidance.

During 2024, the Technical Group made the following changes:

Non-Significant Changes to the Handbook:

- Revisions to Exhibit C Part 2 (IT Work Program) to enhance cybersecurity procedures and further align the exhibit with the National Institute of Standards and Technology (NIST) framework.

- Revisions to Section 1-3 to incorporate best practices to existing guidance regarding the monitoring of run-off insurers.

- Revisions to the Capital and Surplus Repository to encourage examiners to review manual adjustments made to RBC, including those related to modified coinsurance (modco) reinsurance and separate account assets.

- Revisions to enhance guidance surrounding executive compensation in the following areas:
    - An example prospective was added to Exhibit V – Prospective Risk Assessment to demonstrate how an exam team could investigate a company's risk exposure related to its executive compensation practices.

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  - A few potential interview questions were added to Exhibit Y – Examination Interviews to help the examiner gather more information on the company's executive compensation structure.

- Revisions to Section 1-3 and the Investments Repository provide guidance to assist regulators in reviewing affiliated investment management agreements and services.

The Technical Group will continue to notify the FRSAC of any changes to the Handbook and advise if, in our opinion, these changes are "significant" by accreditation expectations.

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Attachment Four
Financial Regulation Standards and Accreditation (F) Committee
3/25/25

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Lori K. Wing-Heier, Chair, Financial Regulation Standards and Accreditation (F) Committee

FROM: Mike Yanacheak, Chair, Capital Adequacy (E) Task Force

DATE: February 1, 2025

RE: Accreditation Standards – Changes to the RBC Formulas and Instructions for Health, Life, and P/C

Attached please find a brief description of changes to the 2024 risk-based capital (RBC) reports, including an overview and instructions, for health, life, and property/casualty (P/C). These changes were adopted by the Capital Adequacy (E) Task Force and the Executive (EX) Committee and Plenary in 2024. The significance of these changes was viewed as it relates to the overall RBC standard.

No changes to the RBC formulas or instructions were deemed to be significant for health, life, or P/C.

Any questions can be directed to NAIC staff:
P/C – Eva Yeung
Life – Kazeem Okosun
Health — Derek Noe

Health RBC Formula

Not Significant	Added a line to XR008 to include total residual tranches or interests on a standalone line with a 20% factor.
Not Significant	Removed the H0 reference from the column 12 heading on page XR002.
Not Significant	Removed the word “Common” from the column 13 heading on page XR002 and updated page XR010 and XR024 to clarify the line for the Market Value in Excess Affiliated Stocks includes amounts for both preferred and common stocks.
Not Significant	Updated the annual statement source for XR014, Column 1 Line 4 and Column 1 Line 10.
Not Significant	Updated the factors for health care receivables on page XR021. Line 26.1 has a 20% factor on the first $5 million and 3% on the remaining amount. Lines 26.2 through 26.6 in aggregate have 40% factor on the first $10 million and 5% on the remaining amount.

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Not Significant Updated the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on page XR013 to include a 5.5% investment yield adjustment.

Life RBC Formula

Not Significant Added a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component and a factor of 0.0068 applied.

Not Significant Updated LR008 to include the 45% RBC base factor for all residual tranches or Interests with effect from year-end 2024 and updated LR039 with the sensitivity test factor of zero.

Not Significant Updated the factor changes for the Receivables for Securities (Line 5, Page LR012 & Line 14 LR010) to 0.016.

Not Significant Updated LR008 and LR009 to allow collateral loans backed by mortgage loans to be assesses RBC charge utilizing LR009 BA mortgages look-through approach.

Not Significant Added a line to LR033, Calculation of Total Adjusted Capital, to address the treatment of non-admitted insurance affiliates.

Not Significant Updated the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on page LR020 to include a 5.5% investment yield adjustment.

P/C RBC Formula

Not Significant Removed pet insurance from the inland marine line of business and added a separate new line for pet insurance in PR035 to provide consistent treatment in the P/C RBC formulas.

Not Significant Changed all the company record data to vendor link data for all RBC Schedule P short-tailed exhibits and removed PR301 through PR306.

Not Significant Updated the Line 1 industry average development factors and industry average loss & loss adjustment expense ratio in PR017 and PR018 respectively.

Not Significant Updated the Line 4 industry loss & expense RBC factors and industry loss & loss adjustment expense ratio in PR017 and PR018 respectively.

Not Significant Updated the Line 8 adjustment for investment income and Line 7 adjustment for investment income in PR017 and PR018 respectively.

Not Significant Added a series of questions in PR027INTA to collect additional details from insurers on the structure of the catastrophe reinsurance programs on an annual basis.

Not Significant Added severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component.

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Not Significant	Added the disclosures of climate-conditioned catastrophe exposure for hurricane and wildfire, which reflect adjusted frequency and severity for years 2024 and 2050. This information is intended to be useful for domestic regulators holding conversations with insurance companies who may have a greater degree of risk for these perils.
Not Significant	Removed the "R0 Component" reference from the Column 12 heading in PR003.
Not Significant	Removed the "Common" in the Column 13 heading in PR003 and updated pages PR007, Line 12 and PR031, Line 35 to clarify the line for the Market Value in Excess Affiliated Stocks includes amounts for both preferred and common stocks.
Not Significant	Update the underwriting risk factors for comprehensive medical, Medicare supplement, and dental and vision factors in PR020 instructions and RBC formulas to include a 5.5% investment yield adjustment.
Not Significant	Added "in part" and update the statement value to "Company Record" in PR019, Line 25.
Not Significant	Updated the receivable for securities factors in PR009 and PR011.
Not Significant	Added a line in PR008 to include the total of residual tranches or interests on a stand-alone line with 20% factor.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Carrie Mears (IA), Chair Valuation of Securities (E) Task Force
Charles Therriault, Director, NAIC Securities Valuation Office

CC: Dan Daveline, Director, NAIC Financial Regulatory Services
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office

DATE: February 10, 2025

RE: Report of the Valuation of Securities (E) Task Force

A. Purpose – This report is presented to assist the Financial Regulation Standards and Accreditation (F) Committee to determine if amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* adopted by the Valuation of Securities (E) Task Force in 2024 require corresponding changes in either the Financial Regulation Standards (defined below) or state laws or regulations adopted in conformity with Part A: Laws and Regulations of the Financial Regulation Standards.

B. Financial Regulation Standards – The NAIC Policy Statement on Financial Regulation Standards (SFRS) in the *2025 Accreditation Program Manual* consists of four parts: Part A identifies laws and regulations deemed necessary to financial solvency regulation;[1] Part B identifies regulatory practices and procedures that supplement and support enforcement of the financial solvency laws and regulations discussed in Part A;[2] Part C contains three standards related to an insurance department's organizational and personnel policies; and Part D focuses on Organization, licensing and change of control of domestic insurers. This report is concerned with the financial solvency standards in Part A. Those standards relevant to this report are shown immediately below and can be characterized as NAIC model legislation, codified NAIC guidance (i.e., *the Accounting Practices and Procedures Manual)*: analytical work product of the NAIC staff (including the NAIC Investment Analysis Office) and state laws and regulations that contain substantially the same standards as NAIC model legislation or guidance. A review indicates that the work product of the NAIC Investment Analysis Office is directly or indirectly incorporated into the following Part A standards. For example:

- Standard 5 requires that insurer owned securities be valued in accordance with the standards promulgated by the NAIC Investment Analysis Office;[3]

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- Standard 2, the *Risk-Based Capital (RBC) for Insurers Model Act* (#312)[4] assigns RBC factors for securities based on their credit risk as measured by NAIC Designations;

- Standard 3, the *Accounting Practices and Procedures Manual*[5] uses NAIC Designations produced by the SVO or SSG, or by insurers through the filing exempt process and or Price Grids produced by the SSG to identify valuation rules applicable to an investment and the reserved capital amount the insurer must report;

- Standard 8, pertaining to state investment regulations often incorporate NAIC mechanisms that relate asset allocations to credit risk expressed in the form of NAIC Designations;[6] and

- Standard 10, the *Credit for Reinsurance Model Act* (#785)[7] identifies insurer owned securities compiled by the SVO into a List of Investment Securities published quarterly in the NAIC AVS+ product, and letters of credits issued by the institutions on the NAIC Qualified U.S. Financial Institutions List administered by the SVO, as eligible for use as collateral in reinsurance transactions.

C. Investment Analysis Office Standards Identified in the *Purposes and Procedures Manual* – All SVO and SSG standards related to the assessment of credit risk in insurer owned securities, identification of additional non-payment risk in securities, classification of certain assets as bonds or as bond-like for reporting purposes, the valuation of insurer owned securities, and other activities conducted by the SVO or the SSG in support of state insurance regulatory objectives, are determined and promulgated by the Valuation of Securities (E) Task Force and published in the *Purposes and Procedures Manual*. In 2024, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2024 effective for year-end financial reporting. Amendments to the *Purposes and Procedures Manual* would automatically be reflected in the SFRS if any or all of the SFRS Standards identified in paragraph A of this memorandum have been adopted by an accredited state or incorporated by reference into the laws or regulations of an accredited state. For example, amendments to the *Purposes and Procedures Manual* would be directly incorporated by reference if the laws or regulations of an accredited state refer to or incorporate Standard 5 on valuation. Amendments to the *Purposes and Procedures Manual* would be indirectly incorporated by reference if the law or regulations of a state refers to or incorporates any other Standard that itself uses NAIC Designations or other analytical products of the Investment Analysis Office as a component; for example, Standard 2 in the case of RBC and/or Standard 3 in the case of statutory accounting.

D. Conclusion – In our opinion, reasoning as discussed above, amendments to the *Purposes and Procedures M*anual adopted by the Valuation of Securities (E) Task Force in 2024 can be characterized as maintenance items consistent with the existing regulatory framework and automatically incorporated into the Part A Standards identified above. The amendments identified in Attachments One did not create processes or practices external to the *Purposes and Procedures Manual* or other NAIC model legislation, guidance or analysis of NAIC staff that would suggest the need to consider an amendment to NAIC model legislation or guidance or legislative action on the part of an accredited state.

We hope this is responsive to the issues and concerns before the Committee.

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Attachment One

RECENT CHANGES TO THE PURPOSES AND PROCEDURES MANUAL
Published in the December 31, 2024 Publication

- **Adopted an update to the definition of Subsidiary, Controlled and Affiliated (SCA) and Related Party Bond or Preferred Stock Investments** – Within the definition of an SCA and related party bond, reference was made to paragraph 4.a. in Statements of Statutory Accounting Principles (SSAP) No. 43R – Loan-Backed and Structured Securities to define which structured or loan-backed investments would qualify as an SCA or related party bond. Subsequent to the adoption of the P&P Manual Amendment, SSAP No. 43R – Loan Backed and Structured Securities was amended so the paragraph referenced in the P&P Manual is no longer accurate. Additionally, with the implementation of the Principles Based Bond Definition by the Statutory Accounting Principles (E) Working Group the name of SSAP No. 43R will be changing from "Loan-Backed and Structured Securities" to "Asset-Backed Securities" on January 1, 2025. To avoid the need for further P&P Manual updates due to potential future amendments to SSAP No. 43R, the technical amendment (i) removed the paragraph specific reference to SSAP No. 43R and (ii) includes a note that, as of January 1, 2025, the P&P Manual references will be updated without any further action necessary by the Task Force to reflect SSAP No.43R's new name, "SSAP No. 43 - Asset-Backed Securities".

  The Valuation of Securities (E) Task Force adopted this amendment on May 2, 2024

- **Adopted an update to the U.S. Government Agency and Other U.S. Government Obligation Abbreviations** – In conjunction with the implementation of the Principles Based Bond Definition, there were related modifications made to Schedule D, Part 1 of the Annual Statements. The SVO identified abbreviations for various U.S. Government or Other U.S. Government entities that will need to be shortened given space limitations and need to eliminate conflicting abbreviations (e.g. "VA" for both Virgina and U.S. Department for Veterans Affairs) for insurance company statement blanks reporting purposes beginning Jan. 1, 2025. As noted in the changes to the annual statement instructions adopted by the Blanks (E) Working Group on Nov. 17, 2023, for Column 24 - Agency, Sovereign Jurisdiction or State Abbreviation, "For items captured as U.S. government or Other U.S. government, report "US" for U.S. Treasury issued items and for non-treasury items, report the abbreviation for the agency issuer captured within these categories. (Agency abbreviations are detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office in the listing of agencies approved for these categories.)". This technical amendment complies with the field size limitations on insurance company statement blanks in advance of the Jan. 1, 2025, implementation of the new statement blanks.

  The Valuation of Securities (E) Task Force adopted this amendment on May 2, 2024

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- **Adopted updates to make current the List of SVO Processes in Part Two** – The P&P Manual references several processes by which the SVO identifies information, entities or securities for various lists for publication as part of its Compilation and Publication of the SVO List of Investment Securities responsibilities. This update removes those processes which the SVO no longer undertakes and inserts those processes which the SVO does perform but which are missing. Additionally, the name of a list related to one of the SVO processes, the "List of Counterparties Rated by the SVO," was changed to the "List of Counterparties Designated by the SVO," since the SVO produces Designations which are distinct from rating agency ratings.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted an update to clarify that an NAIC Designation 6* can be self-assigned by insurers** – An NAIC 6* can be self-assigned by an insurer in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. An NAIC 6* can also be self-assigned when the security is deemed to possess the credit characteristics of securities assigned an NAIC 6, meaning the obligation is in or near default and payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement. An NAIC 6 obligation should incur the most severe treatment under the NAIC Financial Regulation Standards and Accreditation Program. The non-substantive update improves the clarity of the instructions for the self-assignment of an NAIC Designation of 6*.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted the addition of Spain to the list of jurisdictions eligible for counterparty exposure netting** – The purpose of identifying jurisdictions eligible for close-out netting is to permit the calculation of credit risk exposures to counterparties in Schedule DB, Part D, Section 1. The netting of offsetting liabilities with a counterparty will only be permitted in that Schedule if there exists a master agreement that provides for such netting and if there is adequate legal certainty that closeout netting would be enforced upon default of the counterparty. The P&P Manual provides for the addition of jurisdictions to the list of jurisdictions eligible for close-out netting if, in the SVO's opinion, legal opinions and/or other analysis provides adequate legal certainty that, upon default of the counterparty, closeout netting would be enforced. Upon its review of the Spanish law opinion, the SVO determined that it provides adequate legal certainty that closeout netting would be enforced (assuming, that master agreement provisions are consistent with the parameters explained in the netting opinion). The amendment also included a proviso that the SVO is authorized by the Task Force to assume that each master agreement complies with the parameters delineated in the netting opinion for the relevant jurisdiction.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

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- **Adopted an amendment to permit NAIC Designations for short-term asset-backed securities (ABS)** – The Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 2R - Cash, Cash Equivalents, Drafts and Short-Term Investments in the Accounting Practices & Procedures Manual (AP&P) on Dec. 1, 2023. The revisions, which will be effective Jan. 1, 2025, further restrict the investments that are permitted for cash equivalent or short-term investment reporting. Asset-backed securities captured within scope of what will be the revised SSAP No. 43 – Asset Backed Securities, as of Jan. 1, 2025, are expressly excluded from the definition of Cash Equivalents and Short-Term Investments. The amendment permits the assignment of an NAIC Designation to these investments if they are captured within the scope of the revised SSAP No. 43 – Asset Backed Securities and are eligible to be reported on Schedule D, Part 1, Sub-part 2 as an Asset Backed Security.

The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted an amendment authorizing the procedures for the NAIC's Discretion over NAIC Designations assigned through the Filing Exemption (FE) Process** – At the Summer National Meeting held on Aug. 14, 2023, the Task Force discussed an initial draft of a proposed amendment to the P&P Manual authorizing the procedures for the discretion over NAIC designations assigned through the filing exemption (FE) process. The Task Force directed the SVO staff to consider the feedback from Task Force members and interested parties and update the proposal. At the subsequent Spring National Meeting held on March 16, 2024, the Task Force received additional comments on the updated amendment. The Task Force exposed another version of this amendment, dated June 4, 2024, for a 38-day comment period that ended on July 26, 2024. Additional updates were made based recommendations received from interested parties and the final version dated Jul. 30, 2024, including the following updates:
    - Clarification that the process will be consistently applied to all CRPs.
    - The term "authorized insurers" is defined.
    - Clarification of the SVO's written summary of its analysis during the review phase.
    - Including other authorized parties to discuss the security with the SVO.
    - IAO shall communicate in writing its opinion of the appropriate NAIC Designation Category.
    - The annual summary will be anonymized and will not disclose information on specific securities, CRPs or impacted insurers.
    - The SVO will publish within 45 days of a security being removed from the Filing Exemption process an anonymized summary (without references specific to the security or CRP, to avoid disclosing confidential information).
    - Impact to issuers that have multiple securities within the same debt class.

  The effective date is Jan. 1, 2026, but it can be amended if additional time is needed to implement the necessary technological enhancements.

The Valuation of Securities (E) Task Force adopted this amendment on Aug. 13, 2024, the Financial Condition (E) Committee adopted this amendment on August 29, 2024, and the NAIC's Plenary adopted this amendment on November 19, 2024

- **Adopted an update to the Definition of an NAIC Designation** – NAIC Designations were explained and defined in both Parts One and Two of P&P Manual. The SVO proposed both consolidating these explanations and definitions in Part One only and clarifying the meaning of an NAIC Designation including their use, purpose and risks addressed. The amendment includes a new paragraph under the heading "Regulatory Objective" to explain why the term "investment risk," meaning the likelihood that an insurer will receive full and timely principal and expected interest, is replacing "credit risk," which traditionally focuses on the ability of an issuer to make payments in accordance with contractual terms. While credit risk is usually the overall fundamental and predominant determinant of what an NAIC Designation represents, focusing on credit risk alone would limit the SVO's ability to appropriately assess certain risks including, but not limited to, the performance component of a principal protected security (PPS) or certain funds which do not pay in accordance with contractual terms. The amendment also more clearly defines the term "investment risk" under the heading "Definitions".

  The Valuation of Securities (E) Task Force adopted this amendment on Aug. 13, 2024

- **Adopted an amendment to remove references to Subscript-S and update references to investment risk** – At the 2024 Summer National Meeting the Task Force adopted an updated definition of an NAIC Designation. The update included the removal of the concept "Other Non-Payment Risk" and the corresponding SVO administrative symbol "Subscript S", and the replacement of the term "credit risk" with the newly defined term "investment risk." This technical amendment removed references to Other Non-payment Risk, "subscript S" and, where appropriate, "credit risk" or "credit quality" with "investment risk" or the corresponding meaning. The amendment does not introduce any new policies or procedures and included the removal of Notching For NAIC Designation Subscript-S in Part Two.

  The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2024

- **Adopted an update to the List of NAIC Credit Rating Providers (CRP) and the NAIC Use of CRP Credit Ratings** – The P&P Manual in Part Three lists the credit rating providers (CRP) to the NAIC along with the classes of credit ratings for which they have CRP status. Only those classes of credit ratings for which the CRP is registered by the U.S. Securities and Exchange Commission (SEC) as a nationally recognized statistical ratings organization (NRSRO) are eligible to be used for NAIC CRP purposes. This amendment updates the review date and corrects one editing error. Additionally, the amendment includes clarification that the NAIC only uses credit ratings from those classes of credit rating for which the NAIC Credit Rating Provider is registered with the SEC as an NRSRO and that the SEC's definitions are distinct from those used for statutory accounting asset classification purposes.

  The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2024

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- **Adopted an update to require Annual Reviews of Regulatory Transactions** – The Regulatory Transactions instructions in the P&P Manual in Part Three do not specifically provide instructions for a periodic review by the Securities Valuation Office (SVO) or Structured Securities Group (SSG). All other assessments of investment risk by the SVO or SSG in the P&P Manual must be updated at least annually and the insurer is required to notify the SVO of any material changes. The amendment updates the instructions for the production of SVO Analytical Values for Regulatory Transactions to require an annual review, require the relevant insurance company to notify to the SVO or SSG of any material changes and to clarify the an insurance company's limited ability to self-assign an SVO Analytical Value with a "Z".

  The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2024

- **Adopted an update to change the Effective Date for the Financial Modeling of CLOs by SSG to 2025** – At the 2024 Spring National Meeting the Structured Securities Group (SSG) requested a change to the effective date for the financial modeling of collateralized loan obligations (CLOs) to assign NAIC Designations and NAIC Designation Categories to year-end 2025 from year-end 2024. The Task Force agreed to this change.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

END NOTES

[1] "…The purpose of the Part A: Laws and Regulations standards are to assure that an accredited state has sufficient authority to regulate the solvency of its multi-state domestic insurance industry in an effective manner. … A state may demonstrate compliance with a Part A standard through a law, a regulation, an established practice, which implements the general authority granted to the state or any combination of laws, regulations or practices, which achieves the objective of the standard …" Accreditation Program Manual. "…For those standards included in the Part A … where the term "substantially similar" is included, a state must have a law, regulation, administrative practice or a combination of the above that addresses the significant elements included in the NAIC model laws or regulations. ... Accreditation Interlineations (Substantially Similar)

[2]" …Part B sets out standards required to ensure adequate solvency regulation of multi-state insurers … In addition to a domestic state's examination and analysis activities, other checks and balances exist in the regulatory environment. These include … analyses by NAIC's staff, … and to some extent the evaluation by private rating agencies…" Accreditation Program Manual

[3] The SFRS requires that securities owned by insurance companies be valued in accordance with standards promulgated by the NAIC's Capital Markets and Investment Analysis Office approved by VOS TF while other invested assets should be valued in accordance with procedures promulgated by the Financial Condition (E) Committee. The Investment Analysis Office refers to two independent staff functions: i.e., that of the SVO and that of the NAIC Structured Securities Group (SSG). The SSG was formally established as an NAIC staff function in 2013 and assumes responsibility for the conduct of the year-end financial surveillance of insurer owned residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS), conducted by the SVO since 2009. The SSG is also presumptively the segment of NAIC professional staff that would lead assessment of structured finance products generally.

The financial modeling process administered by the SSG generates intrinsic price values (referred to Price Grids) for legacy RMBS and CMBS and NAIC Designations for non-legacy RMBS and CMBS. These standards are contained in Part Four of the Purposes and Procedures Manual. Price Grids are used by insurers to generate NAIC Designations in accordance with procedures specified in Statement of Statutory Accounting Principles (SSAP) No. 43R *Loan Backed and Structured Securities* of the NAIC Accounting Practices and Procedures Manual. Accordingly, to the extent that the NAIC Accounting Practices and Procedures Manual are incorporated by reference in any standard, Price Grids and NAIC Designations derived by reference to them would also be incorporated.

[4] The SFRS requires the adoption of the *Risk Based Capital (RBC) for Insurers Model Act* (#312) or a substantially similar law or regulation. RBC factors are tied to NAIC designations assigned by the SVO or in certain cases, for example in the case of Mortgage Referenced Securities, by the SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the Purposes and Procedures Manual or NAIC Designations derived by insurance companies for RMBS and CMBS from Price Grids produced by the SSG pursuant to SSAP No. 43R. "…*This standard does not articulate a threshold*

level for minimum capital and surplus required for insurers to transact business ... Risk-based capital will, however, effectively require minimums when adopted by states." Accreditation Interlineations - Financial Regulation Standards

[5] The SFRS requires the use of the codified version of the *Accounting Practices and Procedures Manual*. Valuation procedures applicable to long-term invested assets are determined by the nature of the insurer (life or property/casualty) and the NAIC designation assigned to the security by the SVO or SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the Purposes and Procedures Manual or NAIC Designations derived by insurance companies for RMBS and CMBS from Price Grids produced by the SSG pursuant to SSAP No. 43R. " …*To satisfy this standard, … specific adoption of the* NAIC *Annual Statement Blank*, NAIC *Annual Statement Instructions*, and the NAIC *Accounting Practices and Procedures Manual* [is required]…Accreditation Interlineations - Financial Regulation Standards

[6] The SFRS requires a diversified investment portfolio. Although the Investment of Insurers Model Act (Defined Limits or Defined Standards) is not specifically identified, portions of one or the other model acts have been adopted by many of the states and these relate specific asset allocations to NAIC designations provided by the SVO or in some cases by the SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the *Purposes and Procedures Manual* or NAIC Designations derived by insurance companies for RMBS and CMBS from Price grids produced by the SSG pursuant to SSAP No., 43R. " … *This standard … [will require] that statutes, together with related regulations and administrative practices, provide adequate basis … to prevent, or correct, undue concentration of investment by type and issue and unreasonable mismatching of maturities of assets and liabilities. The standard is not interpreted to require an investment statute that automatically leads to a fully diversified portfolio of investments.* Accreditation Interlineations - Financial Regulation Standards

The *NAIC Investment of Insurers Model Act (Defined Limits Version*) (# 280) imposes a 3% limit on the amount an insurer can invest in a single person (the threshold diversification limit) and also imposes a percentage limit on total investments of a defined credit quality, expressed by reference to NAIC Designation categories (the threshold credit quality limit). An additional percentage limit is then assigned to specific asset categories, which may or may not be subject to adjustment with the two threshold requirements. The limits identified in the Model Act are what would guide portfolio allocation decisions. Once made the insurer would shift to monitoring changes in the portfolio and rebalancing the allocations accordingly. Assuming a process for the identification of concentrations caused by indirect exposures, the insurer would aggregate such exposures with similar risks across all activities.

[7] The SFRS requires the adoption of the *Credit for Reinsurance Model Act* (#785), *Credit for Reinsurance Model Regulation* (#786) and *Life and Health Reinsurance Agreement Model Regulation* (#791) or substantially similar laws. The SVO maintains a list of banks that meet defined eligibility criteria to issue letters of credit in support of reinsurance obligations or that are eligible to serve as trustees under various arrangements required by state insurance law.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Director Lori K. Wing-Heier (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee, Commissioner Sharon P. Clark (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee, Director/Insurance Commissioner Andrew R. Stolfi (OR), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

FROM: Rachel Hemphill (TX), Chair, Life Actuarial (A) Task Force,
Craig Chupp (VA), Vice Chair, Life Actuarial (A) Task Force
Kevin Dyke (MI), Chair, Health Actuarial (B) Task Force
Ryan Jubber (UT), Vice Chair, Health Actuarial (B) Task Force

DATE: March 25, 2025

RE: Financial Regulation Standards – As of March 2025 *Valuation Manual*

In 2017, the Financial Regulation Standards and Accreditation (F) Committee approved a motion to adopt the *Valuation Manual – Effective January 1, 2020* as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force made to the Valuation Manual in 2024. The changes were adopted by the Executive (EX) Committee and Plenary at the 2024 Summer Meeting.

Attachment A to this memo includes a detailed listing of the changes made to the Valuation Manual in 2024. The 2024 Valuation Manual amendments could be characterized as clarifications, additional guidance, or requests for additional documentation. In light of the considerations above and on behalf of the Task Forces, it is our opinion that none of these items, either individually or collectively, should be considered "significant" as defined by the financial solvency accreditation standards.

As outlined in the Valuation Manual, amendments will be adopted annually by the Executive (EX) Committee and Plenary at each NAIC Summer Meeting. As such, the Valuation Manual will be reposted with an effective date of January 1 of the year following Executive Committee and Plenary adoption. For example, the current Valuation Manual, which encompasses the attached modifications, is titled the *2025 Edition - Valuation Manual*. This process allows for an efficient way to update the Valuation Manual and ensures that users have the latest version.

The Task Force sincerely requests that the Committee consider the items listed in Attachment A as "insignificant" changes to the Valuation Manual. We will continue to notify the Committee of any changes to the Valuation Manual and to advise if, in our opinion, those changes are "significant" by financial solvency accreditation standards.

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Attachment A

Life VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2023-08	VM- 20 Section 7.D.7, VM-30 Section 3.B.5	Clarifies the allocation of negative interest maintenance reserves (IMR) for VM-20 and VM-30 and that non-admitted IMR is excluded from the allocation.	8/31/2023
2023-09	VM-20 Section 9.C.2.h	This amendment requires companies to apply historical mortality improvement rates, which may be negative.	10/5/2023
2023-11	VM-20 Section 8.C.17 and VM-21 Section 1.C.3	This amendment proposes removal of references to risk-based capital (RBC) in VM-20 and VM-21 that are inconsistent with the purpose, scope, and intended use of RBC to be consistent with improvements made in related sections of the VM-22 draft.	1/25/2024
2023-12	VM-01 and VM-30 Section 3.B	This amendment clarifies expectations on the reflection of equity return volatility in VM-30 cash-flow testing.	2/29/2024
2024-01	VM-01 "Qualified Actuary"	Model 820 specifically calls out a qualified actuary as a person "who meets the requirements specified in the valuation manual." This amendment adds the requirement that "A qualified actuary must meet the specific qualification standard for providing a NAIC Annual Statement Opinion".	4/25/2024
2024-02	VM-G Governance in PBR Actuarial Report, VM-31 Section 3.C.7 and Sections 3.C.8 - 3.C.11, VM-31 Section 3.B.6	This amendment clarifies that documentation on VM-G applies to all products subject to principle-based reserves (PBR). Currently VM-G documentation is only required in the Life PBR Actuarial Report.	2/29/2024
2024-04	VM-20 Section 9.D.5	This amendment updates the industry lapse experience table used for minimally funded universal life with secondary guarantee (ULSG) policies to the term-to-100 lapse experience table published by the Canadian Institute of Actuaries in December 2021.	4/25/2024
2024-06	VM-22 Section 3.C.3	This amendment permits companies to elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts, with prior approval of the domiciliary commissioner.	6/6/2024
2024-05	Valuation Manual II, Subsection 3: Deposit-Type Contracts	This amendment allows companies to consistently determine statutory maximum valuation interest rates monthly rather than annually for certain simple deposit-type contracts with prior approval of the domiciliary commissioner.	6/6/2024
2024-09	VM-21 Section 3.A and VM-21 Section 4.B.1	This amendment corrects the order of operations for the pre-tax IMR application in VM-21.	6/6/2024
2023-13	VM-M Sections 1 and 2, VM-31 Section 3.D.3, VM-20 Sections 3.C.1.h, 9.C.3.b and 9.C.3.g	This amendment requires the use of non-U.S. mortality tables for blocks of business issued in foreign countries covering insureds who are not residents of the U.S. These tables must be approved by LATF before being used for reserve purposes. This amendment also adds several annuity tables to VM-M.	6/13/2024
2024-07	VM-21 Section 6.C.2, VM-21 Section 6.C.6, VM-21 Section 6.C.9, VM-21 Section 11.B.3	This amendment makes updates to VM-21 standard projection amount maintenance expense, full surrender, and mortality assumptions.	6/13/2024
2024-08	VM-21 Section 4.B.3	This amendment clarifies the calculation of the Net Asset Earned Rate (NAER) on additional assets, providing additional detail on how the initial additional asset portfolio is constructed and how it is reinvested.	6/13/2024

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Attachment A

Health VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	HATF Adoption Date
2024-10	VM-26, Section 3.B	Updates the margins for credit disability insurance reserves based on the Society of Actuaries' "2023 Credit Disability Study Report"	5/13/24

The individual amendment proposals reside on the Industry tab on the NAIC website and are accessible by following the link below: **Plenary Adopted Amendments for the 2025 VM**.

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Attachment One

NAIC FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

REVIEW TEAM GUIDELINES

Part B1: Financial Analysis

a. Sufficient Qualified Staff and Resources

Standard: The department should have the appropriate staff and resources to effectively and timely review the financial condition of all domestic insurers.

Results-Oriented Guidelines:

1. The department should have qualified analysts (including department reviewers) or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform analysis tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
   - The quality of the work performed by the financial analysis staff as documented in the financial analysis files.
   - The financial analysis staff's knowledge and comprehension of the insurance industry and its domestic insurers, as demonstrated during interviews with the staff.

2. The analysis of various financial filings should be completed timely, as discussed in the process-oriented guidelines. If the analysis tasks and procedures were not completed timely, consideration should be given to the size and complexity of the department's multistate insurers and the insurance holding company systems for which the department acts as the lead state. If the analysis tasks and procedures were not completed timely, the department should document the reasons for such, and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The financial analysts and supervisors, including contractors (if applicable), as well as those reviewing contract supervisor work, should have an accounting, insurance, financial analysis and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees should focus on accounting, insurance, finance, business or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.

2. The analysis of priority insurers should be completed by the analyst and reviewed by the supervisor (including department review of contract supervisor work) by:
   - Annual statements and actuarial-related filings: End of April.
   - Quarterly statements: Within 60 days from receipt of filing.
   - Supplemental filings (excluding holding company filings): Within 60 days from receipt of filing.

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- Holding company filings: by Oct. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

3. The analysis of non-priority insurers should be completed by the analyst and reviewed by the supervisor (including department review of contract supervisor work) by:
   - Annual statements and actuarial-related filings: End of June or if a preliminary analysis, as outlined in the NAIC *Financial Analysis Handbook* (Analysis Handbook), indicates no immediate concerns, then by the end of July.
     - Preliminary analysis performed and relied upon for analysis completion dates should be completed within two weeks from receipt of filing.
   - Quarterly statements: Within 90 days from receipt of filing.
   - Supplemental filings (excluding holding company filings): Within 120 days from receipt of filing.
   - Holding company filings: by Oct. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

c. Appropriate Supervisory Review

Standard: The department's financial analysis process should provide for appropriate supervisory review and comment. Supervisory review may be conducted by the analyst's supervisor or a senior-level analyst whose job functions include such review duties.

Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the analyst's findings. An in-depth and challenging review should ensure the financial analyses performed are thorough and substantive. When assessing whether the supervisory review is in-depth and challenging, consideration should be given to the following:
   - Substantive review notes provided by the supervisor. Although supervisory review notes may assist the accreditation review team in assessing the supervisory review, they are not required to be created or maintained.
   - The overall quality of the analysis work as documented in the analysis file, including whether all material matters have been identified and adequately discussed.
   - Why issues with the quality of the analysis were not identified and resolved by the supervisor.

2. If a department elects to utilize a contractor to perform the primary supervisory review of financial analysis, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee. This review should result in the department employee understanding and assessing the overall quality of the analysis work performed.

Process-Oriented Guidelines:

1. There should be evidence of at least one level of supervisory review on the financial analysis. This does not include scenarios when the company "passed" an automated review, such as the Quarterly Assessment of Non-Troubled Insurers. The supervisory review should be evidenced by sign-off and dating.

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2. If the department uses an automated review such as the Quarterly Assessment of Non-Troubled Insurers, and the company did not "pass" the automated review but the analyst documented the rationale that no further documented analysis was necessary, a supervisor should approve the conclusion.

3. The supervisory review should include a review of the risk assessment and significant supporting documentation, and include at least some review of the source documents, the level of which should be based on the experience of the analyst.

4. The supervisory review should be performed within two to three weeks of completion of the original analysis.

5. The supervisory review should include a review of any written responses from the company received by the primary analyst that contain significant information.

6. The supervisory review should include a review of any change in an insurer's priority rating.

7. If the department utilizes a contractor to perform the primary supervisory review of financial analysis, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee. This department review should be completed within three weeks of the primary supervisory review, or prior to the overall analysis timeliness deadlines (whichever is sooner).

Part B2: Financial Examinations

a. Sufficient Qualified Staff and Resources

Standard: The department should have the resources to effectively examine all domestic insurers on a periodic basis in a manner commensurate with the financial strength and position of each insurer.

Results-Oriented Guidelines:

1. The department should have qualified examiners (including department designees) or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform examination tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
   - The quality of the work performed by the financial examination staff and/or contractors as documented in the financial examination files.
   - The financial examination staff's and/or contractor's knowledge and comprehension of the insurance industry and the company under examination, as demonstrated during interviews with the staff.

2. The department should have sufficient examination staff and/or contractual resources to appropriately perform necessary target and limited scope examinations.

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Process-Oriented Guidelines:

1. The financial examiners and supervisors (including department designees) should have an accounting, insurance, financial analysis, financial examination, information technology (IT) and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees should focus on accounting, insurance, finance or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial examinations.

2. The department should perform a full-scope examination on each domestic company in accordance with the respective state law or at least once every five years, whichever is less.

d. Appropriate Supervisory Review

Standard: The department's procedures for examinations should provide for supervisory review of examination workpapers and reports to ensure that the examination procedures and findings are appropriate and complete and that the examination was conducted in an efficient and timely manner.

Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the examiner's findings and the concepts applied in performing the work. When assessing compliance with this guideline, consideration should be given to the following:
   - Depth and challenging nature of supervisory review notes, although maintenance of review notes is not required.
   - The overall quality of the work performed, including whether the examination procedures appear to be complete and appropriate and no material matter remains unaddressed.
   - Discussions with department staff that verify occurrence and sufficiency of supervisory review, including, but not limited to, the EICs.
   - Why issues with the quality of the examination were not identified and resolved by the supervisor.

2. If a department elects to use contractors to complete the supervisory review of the examination, the department should demonstrate involvement of appropriate department personnel (i.e., department designees) during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures. This should result in the department designee providing effective contractor oversight (e.g., status updates, budget oversight), as well as understanding and assessing the overall quality of the work performed.

Process-Oriented Guidelines:

1. All workpapers, including work performed by the EIC, should receive at least one level of supervisory review evidenced by sign off and dating by the reviewer.

2. The work of specialists should be reviewed by the EIC for familiarity and understanding.

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3. The supervisory review (including department designee review) of planning (Phase 1 and Phase 2), including the Examination Planning Memorandum and risk matrices, should be done before work has begun in Phase 3. The review of planning should include each of the following:
   - Identification of key activities.
   - Identification and assessment of inherent risks.

4. The supervisory review (including department designee review) of Phase 3, Phase 4 and the first part of Phase 5 should be documented by a review of the risk matrices and any associated coaching notes or correspondence before any applicable substantive test work has begun. The review of Phase 3, Phase 4 and the beginning of Phase 5 should include each of the following:
   - Identification and evaluation of risk mitigation strategies/controls.
   - Determination of residual risk.
   - Established detail examination procedures.

5. The primary supervisory review of workpapers should occur within a reasonable period after completion of the item being examined (generally two to four weeks).

6. Upon the conclusion of examination fieldwork, the Chief Examiner or designee should complete the general review outlined in the Review and Approval Summary exhibit of the Examiners Handbook (or substantially similar document) to ensure an appropriate depth of review has been performed.

7. The examination report should be reviewed by at least one person other than the preparer.

8. The examination report should be approved by the commissioner or the commissioner's designee prior to final issuance.

e. General Examination Procedures

Standard: The department's policies and procedures for the conduct of examinations should generally follow those set forth in the Examiners Handbook. Appropriate variations in methods and scope should be commensurate with the financial strength and position of the insurer.

Results-Oriented Guidelines:

1. The examiner should utilize a risk-focused approach and prepare examination documentation in sufficient detail to provide a clear understanding of the work performed. The content and organization of the documentation should support conclusions reached and effective execution of the risk-focused approach. When assessing compliance with this guideline, consideration should be given to the following:
   - Utilization of a risk-focused approach in establishing priority of accounts or operational areas.
   - The clarity and accuracy of the documentation used to support examination conclusions.
   - Extent of involvement with contract examiners if utilized.
   - Utilization of audit work when relied upon to support an identified risk.
   - Fulfillment of coordination efforts as determined by the state in Exhibit Z – Examination Coordination, and consistent with their role as described in the Examiners Handbook, for companies that are part of a holding company group with insurers domiciled in multiple states.

Process-Oriented Guidelines:

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1. The examiner should prepare a Risk Assessment Matrix, or substantially similar document, that addresses each of the seven phases.

2. The examiner should prepare a planning memo that includes a discussion of each of the following:
   - Scope and objective of the examination.
   - Materiality assessment.
   - Results of the analytical review.
   - Results of the IT review.
   - Corporate governance assessment.
   - Results of the audit function assessment (internal and external), including review of external auditors' workpapers and reports.
   - Summary of the key activities selected.
   - Scope of the prospective risk assessment procedures to be performed.
   - Intended reliance on work completed by auditors and accredited states (if applicable).
   - Exam staffing and time budgets.

3. If the company being examined is part of a holding company group with insurers domiciled in multiple states, the state should complete the appropriate section of Exhibit Z, Part Two (or similar document) as follows:
   - If the state is the exam facilitator conducting a fully coordinated group examination, Exhibit Z, Part Two, Section B (or similar document) should be completed.
   - If the state is a participating state in a fully coordinated group examination, the state should complete Exhibit Z, Part Two, Section C (or similar document).
   - If the state did not participate in a coordinated group examination or utilized existing work outside of a fully coordinated group examination, the state should complete Exhibit Z, Part Two, Section D (or similar document).

4. The data supplied by the company or an outside source and utilized (relied upon) by the examiners should be tested for both accuracy and completeness in accordance with the respective residual risk assessment.

5. The sampling techniques used should conform to guidance set forth in the Examiners Handbook or other appropriate authoritative guidance.

6. If a department elects to utilize contract examiners, the department should demonstrate involvement of appropriate department personnel during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures.

7. The department should utilize qualified EICs and department designees. The Examiners Handbook provides guidance on the authority, responsibilities and credentials for qualified EICs and department designees. If the department utilizes an EIC who does not hold the CFE designation or is not directly supervised by someone holding the CFE designation, the department should document in the Financial Exam Electronic Tracking System (FEETS) when calling the exam how this individual is qualified to act in the capacity of an EIC on a multi-state insurer examination. Factors that may be considered include other professional designations, prior insurance experience, familiarity with the NAIC risk-focused surveillance process, etc.

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INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee March 24, 2025, Minutes 11-2
International Insurance Relations (G) Committee Feb. 13, 2025, Minutes (Attachment One)..... 11-6
NAIC Comments on the International Association of Insurance Supervisors (IAIS) Public Consultation on the Draft Application Paper on the Supervision of Artificial Intelligence (AI) (Attachment One-A)..... 11-8
Proposal for the Creation of the Aggregation Method Implementation (G) Working Group and its Charges (Attachment One-B) 11-13
International Insurance Relations (G) Committee Jan. 30, 2025, Minutes (Attachment Two) 11-14
NAIC Comments on the IAIS Public Consultation on Ancillary Risk Indicators in the Global Monitoring Exercise (GME) (Attachment Two-A)..... 11-15

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Draft: 4/7/25

International Insurance Relations (G) Committee
Indianapolis, Indiana
March 24, 2025

The International Insurance Relations (G) Committee met in Indianapolis, IN, March 24, 2025. The following Committee members participated: Eric Dunning, Chair (NE); Timothy J. Temple, Co-Vice Chair, and Tom Travis (LA); Justin Zimmerman, Co-Vice Chair (NJ); Lori K. Wing-Heier (AK); Barbara D. Richardson (AZ); Ricardo Lara (CA); Andrew N. Mais (CT); Ann Gillespie (IL); Anita G. Fox (MI); D.J. Bettencourt (NH); Alice T. Kane (NM); Michael Humphreys (PA); and Nathan Houdek (WI). Also participating was: Philip Barlow (DC).

1. Adopted its Feb. 13, 2025; Jan. 30, 2025; and 2024 Fall National Meeting Minutes

The Committee met Feb. 13, 2025, and Jan. 30, 2025. During these meetings, the Committee discussed NAIC comments on the following International Association of Insurance Supervisors (IAIS) public consultations: 1) draft application paper on the supervision of artificial intelligence (AI); and 2) ancillary risk indicators in the Global Monitoring Exercise (GME).

Commissioner Lara made a motion, seconded by Director Fox, to adopt the Committee's Feb. 13, 2025 (Attachment One); Jan. 30, 2025 (Attachment Two), and Nov. 17, 2024, (*see NAIC Proceedings – Fall 2024, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Discussed Committee Priorities, Processes, and Projects

Director Dunning discussed the Committee's priorities for this year, including two key areas: 1) monitoring the implementation of the insurance capital standard (ICS); and 2) monitoring the Financial Sector Assessment Program (FSAP). He noted the IAIS reached an important milestone at the end of 2024 by finalizing the ICS and the comparability assessment of the Aggregation Method (AM). He explained that the Committee created the Aggregation Method Implementation (G) Working Group to facilitate the domestic implementation of the ICS via the AM.

Director Dunning gave a brief overview of the FSAP and the NAIC's involvement in previous assessments. He then elaborated on the Committee's role in coordinating the NAIC's participation in the FSAP, including the referral of resulting recommendations for consideration by other NAIC committees, task forces, and/or working groups. As the FSAP covers all financial sectors, the Committee works alongside other relevant domestic authorities. He said the U.S. Department of the Treasury (Treasury Department) acts as a liaison with the International Monetary Fund (IMF) for the whole project.

Next, Director Dunning described other international projects and activities for 2025. He explained the four main core objectives of the IAIS's new strategic plan are to: 1) monitor and respond to key risks and trends in the global insurance sector; 2) set and maintain globally recognized standards for supervision; 3) support supervisory practices, understanding of supervisory issues and facilitating capacity building; and 4) assess implementation of global standards. He explained that the committee will be focused on contributing to various IAIS workstreams this year that fall under each of these objectives.

Next, Director Dunning previewed the upcoming work of the Organisation for Economic Co-operation and Development (OECD), including natural catastrophe risks, guidelines on insurer governance, and a global insurance market trends report. Additionally, this year, the OECD's Insurance and Private Pensions Committee

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(IPPC) will transition into a task force of a larger financial services committee, and its meetings will occur as part of a larger financial services week expected to be held every six months.

At the Sustainable Insurance Forum (SIF), Director Dunning said work will continue on climate-related risks in insurance regulatory capital frameworks, transition planning, and building a better understanding of biodiversity and nature-related risks in 2025. He also noted the European Union (EU)-U.S. Insurance Dialogue Project will follow two workstreams this year: 1) climate and resilience; and 2) innovation and technology.

Director Dunning reported that the NAIC has a handful of bilateral meetings already planned this year with various jurisdictions, including the Association of Insurance Supervisors of Latin America (ASSAL), Morocco, the United Kingdom (UK), Japan, Switzerland, and Bermuda. He then previewed the NAIC's 2025 International Insurance Forum and the virtual spring 2025 session of the Internal Fellows Program.

Ryan Workman (NAIC) gave a review of team members of the NAIC International Division, noting their respective roles and projects as support staff for members. Director Dunning voiced appreciation for the time and effort of all NAIC representatives who contribute to the various work at the IAIS and other organizations.

Dave Snyder (American Property Casualty Insurance Association—APCIA) commended the NAIC on its international activity efforts, saying they made a difference during ICS and AM discussions last year. He emphasized the importance of cohesiveness and bringing people together on the international stage, to protect consumers and preserve solvent markets. Snyder asked the NAIC to share state approaches toward climate issues internationally. In the recent IAIS AI application paper, Snyder noted that his review found an imbalance between the advantages and the risks associated with the use of AI as outlined in the paper. He concluded by urging for continued advocacy at the IAIS for following NAIC standards on consumer and stakeholder participation at the global level.

3. Heard an Update on the Activities of the IAIS

Commissioner Zimmerman provided an update on IAIS activities, starting with a review of ICS implementation. Currently, the IAIS is developing high-level principles for the development of an implementation assessment framework. The goal is to have a full assessment methodology agreed upon in time for members to complete a self-assessment in 2026. A more intensive IAIS assessment of jurisdictions' ICS implementation will begin in 2027. He said concurrently, the IAIS is developing ComFrame reporting and disclosure requirements for the ICS. These will be subject to public consultation in the fourth quarter of 2025 and finalized in 2026. The U.S. implementation will be subject to the same timing and a consistent methodology, which will have to take AM specificities into account.

Next, Commissioner Zimmerman reported that the IAIS is preparing to launch its next peer review process, which will focus on Insurance Core Principle (ICP) 13 (Reinsurance) and other forms of risk transfer. He also explained that the IAIS' Operational Resilience Working Group is drafting a toolkit to accompany objectives for sound operational resilience in the insurance sector which were subject to public consultation last year. The toolkit is scheduled for public consultation this summer, with the final application paper published at the end of 2025.

Commissioner Zimmerman then explained that the IAIS' Market Conduct Working Group is finalizing its application paper on how to achieve fair treatment for diverse consumers. He reported that the public consultation on the IAIS AI paper at the IAIS FinTech Forum has concluded, and the group is reviewing public comments and will incorporate appropriate revisions therein. At the Financial Inclusion Forum (FIF), the group has begun updating an application paper on regulation and supervision supporting inclusive insurance markets.

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Currently, work is underway on a revised structure of the paper, and drafting will continue in the next few months before an eventual public consultation.

4. Heard an Update on International Cooperation Activities

Commissioner Temple summarized recent international activities. Last December, on the sidelines of the IAIS meetings in Cape Town, South Africa, the NAIC had bilateral meetings with 13 jurisdictions, including Australia, Canada, Canada–Quebec, European Insurance and Occupational Pensions Authority (EIOPA), Hong Kong, India, Japan, Morocco, Saudi Arabia, Singapore, South Africa (both the Reserve Bank and the Financial Sector Conduct Authority), Taiwan, and Vietnam.

Next, Commissioner Temple reported on NAIC participation in recent international events, including:

- The Asian Insurance Forum 2024 in Hong Kong on Dec. 10. Commissioner Mais delivered remarks as part of the panel "Supervisory Priorities from a Global Perspective," covering key NAIC priorities.
- The 19th Asian Forum of Insurance Regulators (AFIR) Annual Meeting and Conference and the Seventh Asia-Pacific High-Level Meeting on Insurance Supervision in Kathmandu, Nepal, from Jan. 20-22. Director Dunning delivered remarks as part of the panel, "Regional Insurance Regulatory Reforms: Building a Future-Proof Risk-Based Solvency Approach." On the sidelines of the AFIR event, the NAIC had bilateral conversations with the Asia Development Bank, the AFIR Secretariat, Cambodia, China, India, Macau, Nepal, and Thailand

Commissioner Temple reported that the EU-U.S. Insurance Dialogue Project's workstream on climate risk and resilience has been exploring access to data and underwriting to promote climate resilience, as well as catastrophe risk modeling and how to improve knowledge and transparency. The workstream on innovation and technology has been discussing the NAIC's *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers*, the EU AI act, and other AI developments including AI use cases, cyber resilience initiatives, and other fintech trends impacting respective markets.

Finally, Commissioner Temple noted that on Dec. 4-5, the NAIC participated in the OECD's Insurance and Private Pensions Committee (IPPC) meeting in Paris, providing an update and insights into the insurance industry's current state. He also said that the SIF's Capital and Supervisory Frameworks Working Group is expected to publish papers exploring the extent to which climate-related risks are being considered in insurance regulatory frameworks.

5. Discussed the NAIC International Fellows Program

Director Dunning said the NAIC's International Fellows Program celebrates its 20th anniversary this year. He noted that the success is in large part due to states serving as volunteers and mentors to the fellows. To highlight this important element, mentors were asked to provide some remarks on their experience with the fellows program.

Barlow and Travis spoke about their experiences as longtime mentors for the program. Barlow said the District of Columbia has had 33 fellows from 15 countries, noting their eagerness to learn about the state-based system of insurance regulation and readiness to take advantage of the unique learning opportunity. Travis reported Louisiana has had 31 fellows from 10 different countries and highlighted an instance of a fellow being a chief insurance regulator in their respective jurisdiction and the lasting impact the program has had.

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6. Discussed Other Matters

Director Dunning reminded the Committee and stakeholders that registration is open for the NAIC's 2025 International Insurance Forum in Washington, DC, May 29–30.

Commissioner Lara highlighted the importance of the NAIC's provisional acceptance to the United Nations Conference of the Parties (COP). He emphasized that insurance can no longer be an afterthought in the global climate conversation and that having U.S. insurance regulators part of the global conversation on climate risk is critical.

Having no further business, the International Insurance Relations (G) Committee adjourned.

SharePoint/Member Meetings/G CMTE/National Meetings/2025/Indianapolis – Spring National Meeting/Minutes

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Draft: 3/10/25

International Insurance Relations (G) Committee
Virtual Meeting
February 13, 2025

The International Insurance Relations (G) Committee met Feb. 13, 2025. The following Committee members participated: Eric Dunning, Chair (NE); Timothy J. Temple, Co-Vice Chair (LA); Justin Zimmerman, Co-Vice Chair (NJ); Lori K. Wing-Heier (AK); Barbara D. Richardson (AZ); Ricardo Lara (CA); Andrew N. Mais represented by William Arfanis (CT); Ann Gillespie (IL); Anita G. Fox (MI); Michael Humphreys (PA); and Nathan Houdek (WI).

1. Adopted a Motion to Approve NAIC Comments on the IAIS Public Consultation on the Draft Application Paper on the Supervision of AI

Commissioner Zimmerman explained that the International Association of Insurance Supervisors (IAIS) is conducting a public consultation on its draft application paper on the supervision of artificial intelligence (AI). He explained the objective of this paper is to support supervisors when applying the current Insurance Core Principles (ICPs) to promote appropriate and globally consistent oversight of the use of AI within the insurance sector.

Commissioner Zimmerman said the NAIC's initial draft comments are based on an internal review of the consultation documents by NAIC staff and members of the Big Data and Artificial Intelligence (H) Working Group and the Third-Party Data and Models (H) Task Force. The initial draft comments were circulated in advance of the meeting, and no additional input was received for consideration.

Nikhail Nigam (NAIC) provided an overview of the NAIC's comments on the draft application paper, noting that many were minor and editorial. He explained that a general comment was to include references to previous work of the Innovation and Technology (EX) Task Force as well as the ongoing work of the Innovation, Cybersecurity, and Technology (H) Committee. He noted a comment to a section on fairness in AI usage that sought to untangle a wordy reference to discrimination. Finally, Nigam referenced comments on areas of the paper that would benefit from further clarifications and the removal of repetitive wording and sections.

Peter Kochenburger (Southern University Law Center—SULC) asked for further clarification on a comment suggesting rephrasing instead of using the term 'non-discrimination.' Nigam noted that the comment aims to enhance the readability of the section on fairness, not to change the discussion on unfair discrimination in the paper.

Dave Snyder (American Property Casualty Insurance Association—APCIA) commented on the draft application paper, opining that it needs a more balanced discussion of the use and supervision of AI in the insurance sector, and was supportive of the NAIC's clarification comments on discriminatory practices. He highlighted and commended the NAIC's involvement in drafting the application paper. Snyder concluded by saying that the Global Federation of Insurance Associations (GFIA) will submit full comments to the IAIS.

Director Wing-Heier made a motion, seconded by Commissioner Temple, to approve the submission of the NAIC's comments (Attachment One-A). The motion passed unanimously.

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2. Approved the Appointment of the Aggregation Method Implementation (G) Working Group and its Charges

Director Dunning proposed the creation of a new working group under the committee, the Aggregation Method Implementation (G) Working Group, and the adoption of its charges. He explained that at the end of 2024, the IAIS concluded that the aggregation method (AM) provides a basis for the implementation of the global insurance capital standard (ICS). The IAIS comparability assessment highlighted two areas where work will help ensure convergence: treatment of interest rate risk and appropriate timing of supervisory intervention.

Director Dunning said the Working Group will be chaired by Commissioner Mais and vice-chaired by Rebecca Easland (WI). The Working Group will have 12 members familiar with both international policy and technical domestic aspects so that relevant issues and perspectives can be identified, discussed, and addressed simultaneously.

Commissioner Lara supported the creation of the Aggregation Method Implementation (G) Working Group, saying that implementation of the ICS via the AM is important for the NAIC and its members.

Commissioner Lara made a motion, seconded by Director Wing-Heier, to approve the appointment of the Working Group and its charges (Attachment One-B). The motion passed unanimously.

3. Discussed the NAIC International Fellows Program

Director Dunning highlighted the NAIC's International Fellows Program, noting that it celebrates its twentieth anniversary this year. After a brief overview of its creation and a review of its twice-yearly format of meeting virtually in the spring and in person in the fall, he said the International Fellows Program has hosted over 300 participants in person and another 400 virtually from over 50 countries.

Director Dunning noted that the NAIC will celebrate the program's anniversary throughout 2025 at upcoming meetings and events. He concluded with a reminder for states to express interest to NAIC staff if they would like to host an international fellow during the upcoming fall 2025 session.

4. Discussed Other Matters

Director Dunning said the Committee plans to meet at the Spring National Meeting in Indianapolis.

Ryan Workman (NAIC) noted an upcoming IAIS public background call on work to develop ComFrame material.

Having no further business, the International Insurance Relations (G) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Committees/G CMTE/National Meetings/2025/Indianapolis - Spring National Meeting

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Questions for public consultation on draft Application Paper on the supervision of artificial intelligence

Thank you for your interest in the public consultation on draft Application Paper on the supervision of artificial intelligence. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

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Consultation questions

1	General comments draft Application Paper on the supervision of artificial intelligence • Page 32 - for the US example we would like to provide a link and make the following edits: "To this extent the bulletin provides guidelines that align with the NAIC ~~p~~Principles on AI ~~for assessing the risks of AI systems~~. Materials - Innovation and Technology (EX) Task Force • Page 38 - edit last sentence of US example as follows: "Specifically concerning AI systems outsourced from third parties, the ~~AI system~~ bulletin sets forth the following expectations….
2	General comments on Executive Summary • Para 2 – 1st sentence ends with a ")" without a corresponding "("therefore suggest the following edit: ~~as well)~~. • Para 4 - suggest second sentence replace the word "manager" with "management"
3	General comments on Section 2 Para 7 second sentence – needs an "s" after AI system.
4	Comments on Section 2.1 Context and objective
5	Comments on Section 2.2 AI system definition • Figure 1, arrows – the arrows are visually misaligned to the subsets. Recommend the arrows extend into the Venn diagram so they touch the circles they are related to.
6	Comments on Section 2.3 Scope and structure
7	Comments on Section 2.4 Proportionality and risk-based supervision • Table 3 - suggest considering adding a third point under the "Implementation" section that discusses how consumers are treated when the data necessary for making a prediction within a machine learning model is unavailable from a third party or "missing"? • Paragraph 28, third sentence - suggest rewriting this sentence to provide clarity: It is also the second use of "furthermore" to start a sentence in the same paragraph: Original – "Furthermore, certain AI use cases such as those used in less material internal processes may count with lower levels of explainability compared with AI use cases implemented in the area of pricing and underwriting, where it is

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	important to ensure that consumers are provided with sufficient information so they can make informed decisions." Proposed – "Moreover, insurers may accept lower levels of explainability in certain AI use cases such as those used in less material internal processes compared with AI use cases implemented in the area of pricing and underwriting, where it is important to ensure that consumers are provided with sufficient information so they can make informed decisions."
8	Comments on Section 2.5 The role of supervisors and supervisory tools • Para 31, bullet 5 – "Use of supervisory question banks". The NAIC released a white paper called "Regulatory Review of Predictive Models White Paper." There are also related appendices regarding specific machine learning model types. These could be considered examples of "Supervisory question banks" and included as a footnote or in the Appendix. For example, here are questions for tree-based models such as Gradient Boosting Machines: https://content.naic.org/sites/default/files/inline-files/CASTF%20Tree-based%20Model%20Appendix%20%28B-Trees%29.pdf
9	General comments on Section 3
10	Comments on Section 3.1 Introduction
11	Comments on Section 3.2 Risk management systems
12	Comments on Section 3.3 Corporate culture
13	Comments on Section 3.4 Human oversight and allocation of management responsibilities • Paragraph 41, first sentence – suggest making the statement less limiting: Original – "However, there are a number of inherent characteristics of AI systems that necessitate particular attention; these are:" Proposed – "However, there are a number of inherent characteristics of AI systems that necessitate particular attention which include but are not limited to:" • Additionally, design and development should be added to the series discussing the defining of responsibility for the AI System.
14	Comments on Section 3.5 Use of third-party AI systems and data
15	Comments on Section 3.6 Traceability and record keeping
16	General comments on Section 4
17	Comments on Section 4.1 Introduction • Para 50, fourth sentence - as only some AI applications can continuously update their understanding and predictions not all AI models propose the following edits:

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	"Furthermore, some AI applications ~~they~~ can continuously update their understanding and predictions with new data and can adapt to changing circumstances."
18	Comments on Section 4.2 AI system robustness • Para 53, bullet 6 - given that the use of synthetic data requires a lot of caution suggest eliminating this sentence without more discussion: "Where historical data may not be complete, consider use of synthetic data."
19	Comments on Section 4.3 AI system safety and security
20	General comments on Section 5
21	Comments on Section 5.1 Introduction • Para 62, first sentence suggested edit: Transparency and explainability are key to building trust and ensuring accountability by understanding the unique risks to consumers, such as the potential for unfair discrimination.
22	Comments on Section 5.2 Explaining AI system outcomes
23	Comments on Section 5.3 Explanations adapted to the recipient stakeholders
24	General comments on Section 6
25	Comments on Section 6.1 Introduction
26	Comments on Section 6.2 Fairness by design • Para 79, first sentence - as stated earlier in the paper, there is "lawful risk differentiation and risk-based pricing…" so perhaps a term other than "non-discrimination" should be used. Suggest following edit: "AI systems that are harmful or abusive, treat consumers unfairly or do not respect fundamental rights, including the right to not be unfairly discriminated against ~~non-discrimination~~, should not be brought to the market."
27	Comments on Section 6.3 Data management in the context of fairness
28	Comments on Section 6.4 Inferred causal relations in an AI system • Para 84, first sentence states "as part of appropriate policies and processes to ensure against unfair use of data (19.12.7), it is important that insurers establish a process to regularly extract and document the implied AI system inferences (and hence implied causal relationships) in a clear and transparent manner." An example of this is in the NAIC CASTF white paper: (https://content.naic.org/sites/default/files/committee_related_documents/9-15%2520CASTF%2520-%2520Predictive%2520Model%2520White%2520Paper%25209-09-2020_1.pdf) The white paper suggests that insurers provide "rational explanations" for rating variables. Rational explanations are defined as "a plausible narrative

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	connecting the variable and/or treatment in question with real-world circumstances or behaviours that contribute to the risk of insurance loss in a manner that is readily understandable to a consumer or other educated layperson. A 'rational explanation' does not require strict proof of causality but should establish a sufficient degree of confidence that the variable and/or treatment selected are not obscure, irrelevant, or arbitrary." Suggest this example could be included as a footnote to this paragraph or in Appendix.
29	Comments on Section 6.5 Monitoring the outcomes of AI systems
30	Comments on Section 6.6 Adequate redress mechanisms for claims and complaints • Para 92, first and second sentence - we have seen instances where a consumer is not able to challenge the AI model because they cannot reproduce the type of data used by the model. Specifically, there are neural network models that score roof condition based on aerial imagery. These models require using aerial imagery taken from a certain height with sufficient granularity. In such cases the consumer cannot contest the information because they can't reproduce this imagery themselves. However, they might be able to provide an alternative, such as a report from a human roof inspector. Perhaps this can be reworded such that alternative types of data can be provided by the consumer. Suggest following edit to Para 92 first and second sentence: "Part of this redress mechanism should include the ability for a consumer to update, supplement or correct information and data from sources that are used in the AI systems or provide a reasonable alternative. This will allow consumers to challenge and update information from third-party data sources as well as information generated by the insurer."
31	Comments on Section 6.7 Societal impacts of granular risk pricing
32	What further work could the IAIS undertake on artificial intelligence?
33	Are there risks not effectively captured by the IAIS' work on artificial intelligence?

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INTERNATIONAL AFFAIRS

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Proposal for Aggregation Method Implementation (G) Working Group (AMIWG)

Proposal: Create a new working group under the International Insurance Relations (G) Committee, the "Aggregation Method Implementation (G) Working Group" (AMIWG). The project's international policy and technical domestic considerations have potential implications for both the G Committee and the Financial Condition (E) Committee. While the new group will be under the G Committee, members of the AMIWG will be drawn from both so that relevant issues and perspectives can be identified, discussed and addressed simultaneously. To help ensure an effective working group, membership will be limited to twelve states with the relevant regulatory interests and technical expertise.

Background: At the end of 2024, the International Association of Insurance Supervisors (IAIS) concluded that the AM provides a basis of implementation of the ICS for Internationally Active Insurance Groups (IAIGs). Public statements affirmed our commitment to use the AM as the US implementation of the ICS and that, when developed, reporting/disclosure requirements in ComFrame will also apply to the AM. The IAIS comparability assessment highlighted two areas where work will help ensure convergence: treatment of interest rate risk and appropriate timing of supervisory intervention.

Proposed Working Group Charges:

(1) Review group capital regulation of US groups and their potential for comparable implementation of the ICS including:
   a. Sensitivity to changes in interest rates and their impact on the solvency of the US life groups
   b. Supervisory intervention of US groups on group capital grounds
   c. Use of scalars and choice of regulatory intervention points
   d. Reporting and disclosure requirements

(2) Coordinate the US implementation of the ICS via the AM by recommending:
   a. potential domestic refinements
   b. the final AM

(3) Monitor any further development of ICS at the IAIS and what implications those may have for implementation of the AM

(4) Report to, and coordinate with, the International Insurance Relations (G) Committee and any relevant groups under the Financial Condition (E) Committee

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Attachment Two
International Insurance Relations (G) Committee
3/24/25

Draft: 2/19/25

International Insurance Relations (G) Committee
Virtual Meeting
January 30, 2025

The International Insurance Relations (G) Committee met Jan. 30, 2025. The following Committee members participated: Eric Dunning, Chair (NE); Timothy J. Temple, Co-Vice Chair, represented by Tom Travis (LA); Justin Zimmerman, Co-Vice Chair (NJ); Lori K. Wing-Heier (AK); Ricardo Lara (CA); Andrew N. Mais (CT); John F. King represented by Martin Sullivan (GA); Ann Gillespie represented by Susan Berry (IL); Anita G. Fox (MI); Michael Humphreys (PA); and Nathan Houdek (WI).

1. Adopted a Motion to Approve NAIC Comments on the IAIS Public Consultation on Ancillary Risk Indicators in the GME

Commissioner Zimmerman explained that the International Association of Insurance Supervisors (IAIS) is conducting a public consultation on ancillary risk indicators for inclusion in the Global Monitoring Exercise (GME). He said this consultation sought feedback on a set of proposed ancillary indicators concerning credit risk, derivatives, reinsurance, mark-to-model assets, and revisions to the liquidity metrics. The input received through this consultation will be considered in the context of the upcoming regular review of the GME assessment methodology planned to take place in 2025.

Commissioner Zimmerman said the NAIC's initial draft comments are based on an internal review of the consultation documents by NAIC staff and members of the Macroprudential (E) Working Group and Financial Stability (E) Task Force. The initial draft comments were circulated in advance of the meeting, and one Committee member received some input for consideration.

Ryan Workman (NAIC) provided an overview of the NAIC's comments on the draft application paper, noting that most were minor and editorial in nature. He noted that upon further review and based on input from a Committee member, it was recommended that a comment on data reporting for mortgages be removed, as it was no longer relevant upon further review of the question.

Commissioner Lara made a motion, seconded by Commissioner Mais, to approve the submission of the NAIC's comments with the removal of the comment on data reporting for mortgages (Attachment Two-A). The motion passed unanimously.

2. Discussed the NAIC International Fellows Program

Commissioner Zimmerman noted this agenda item would be postponed until the Committee's Feb. 13 meeting.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Questions for public consultation on ancillary risk indicators in the Global Monitoring Exercise

Thank you for your interest in the public consultation on ancillary risk indicators in the Global Monitoring Exercise. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

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Consultation questions

Questions for stakeholders	
Question 1	Do you have any views on the proposed definitions of the metrics on investments by credit rating (CRE.1.a and CRE.1.b)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 2	Do you have any views on the proposed definitions of the metrics on credit risk scenario analysis (CRE.2.a, CRE.2.b and CRE.2.c)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 3	Do you have any views on the proposed default and recovery rates in the credit risk scenario analysis (Table 3)? If you would recommend changes, please provide the data sources.
Question 4	Is the current level of granularity of collected data in the IIM template (asset class, credit rating) adequate to monitor an insurers' credit risk exposure, taking into account the reporting burden of any potential increased granularity? **No additional granularity is needed. Recommend a review to reduce granularity and reporting burden, e.g., removing data by asset class. Individual insurer credit risk is an insurer responsibility with prudential supervisory oversight, that should not be duplicated in detail via annual IAIS global monitoring.**
Question 5	Do you have any other comments on the proposed ancillary indicator on credit risk? ***Table 2*, pages 7 and 8:** **For accuracy, in the NAIC column, add a "1" in Rows 1 and 2 and update Row 7 to read, "5/6" instead of "5."**
Question 6	Do you have any views on the proposed definitions of the metrics on relative usage of derivatives (DER.1.a, DER.1.b, DER.1.c, DER.1.d and DER.1.e)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 7	Do you have any views on the proposed definition of the metric on PFE of derivatives (DER.2.a)? If you would recommend changes, please provide a revised definition and technical specifications.
Question 8	Do you have any views on the proposed definition of the metric on materiality of OTC derivatives (DER.3.a)? If you would recommend changes, please provide a revised definition and technical specifications.
Question 9	Do you have any views on the proposed definitions of the metrics on margin and collateral calls (DER.4.a, DER.4.b and DER.4.c)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 10	Do you have any views on the proposed definition of the metric on central clearing (DER.5.a)? If you would recommend changes, please provide a revised definition and technical specifications.
Question 11	Do you have any views on the proposed definition of the metric on hedging (DER.6.a)? If you would recommend changes, please provide a revised definition and technical specifications.
Question 12	Do you have any other comments on the proposed ancillary indicator on derivatives?

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Question 13	Do you have any views on the proposed definitions of the metrics on reliance on reinsurance (RE.1.a and RE.1.b)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 14	Do you have any views on the proposed definition of the metric on cross-border life reinsurance (RE.2.a)? If you would recommend changes, please provide a revised definition and technical specifications.
Question 15	Do you have any views on the proposed definition of the metrics on (re)insurers' market share (RE.3.a and RE.3.b)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 16	Do you have any additional suggestions for metrics to capture the potential build-up of any systemic risk in the reinsurance sector? **No additional suggestions for metrics capturing potential buildup of systemic risk in reinsurance.**
Question 17	Do you have any other comments on the ancillary indicator on reinsurance?
Question 18	Do you have any views on the proposed definitions of the metrics on mark-to-model assets (MTM.1.a, MTM.1.b and MTM.1.c)? If you would recommend changes, please provide revised definitions and technical specifications.
Question 19	Would it be feasible to report data on the new proposed item on mortgages that are not included in Level 3 assets held at fair value or in assets which would be classified as Level 3 if they were held at fair value (eg mortgages held as Level 2 assets)? If not, please describe any challenges and how to potentially overcome these.
Question 20	Do you have any other comments on the proposed ancillary indicator on mark-to-model assets?
Question 21	Do you have any views on the proposed methodology for the correlation adjustment for the ILR? If you propose any changes, please provide the revised methodology and technical specifications.
Question 22	Do you have any views on amending the correlation factor for ILR liquidity needs between life stress and P&C stress? Please provide evidence to support your proposals.
Question 23	Do you have any views on amending any other correlation factors for ILR liquidity needs? If so, which correlation factor(s) do you suggest changing, and why? Please provide evidence to support your proposals.
Question 24	Do you have any other comments on the correlation adjustment for the ILR?
Question 25	Do you have any other feedback on the development of ancillary risk indicators in the GME?

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INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE

Innovation, Cybersecurity, and Technology (H) Committee March 26, 2025, Minutes 12-2
Big Data and Artificial Intelligence (H) Working Group March 25, 2025, Minutes (Attachment One) 12-9
Big Data and Artificial Intelligence (H) Working Group March 11, 2025, Minutes (Attachment One-A) 12-15
Cybersecurity (H) Working Group Feb. 20, 2025, Minutes (Attachment Two) 12-19

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Draft: 4/9/25

Innovation, Cybersecurity, and Technology (H) Committee
Indianapolis, Indiana
March 26, 2025

The Innovation, Cybersecurity, and Technology (H) Committee met in Indianapolis, IN, March 26, 2025. The following Committee members participated: Barbara D. Richardson, Chair (AZ); Karima M. Woods, Co-Vice Chair (DC); Michael Yaworsky, Co-Vice Chair (FL); Michael Conway (CO); Trinidad Navarro represented by Stephen Taylor (DE); Jerry Bump (HI); Doug Ommen (IA); Marie Grant (MD); Angela L. Nelson represented by Jo A. LeDuc and Cynthia Amann (MO); Mike Chaney represented by Andy Case (MS); James E. Brown (MT); Jon Godfread and Colton Schulz (ND); Judith L. French (OH); Michael Humphreys, David Buono, and Shannen Logue (PA); and Elizabeth Kelleher Dwyer (RI). Also participating were: George Bradner, Kristin Fabian, and Wanchin Chou (CT); Eric Dunning (NE); Carter Lawrence (TN); and Eric Lowe (VA).

1. Adopted its 2024 Fall National Meeting Minutes

Commissioner Conway made a motion, seconded by Commissioner Brown, to adopt the Committee's Nov. 19, 2024, minutes (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee*). The motion passed unanimously.

2. Adopted the Third-Party Data and Models (H) Task Force's 2024 Fall National Meeting Minutes

Director Dwyer made a motion, seconded by Commissioner Yaworsky, to adopt the Third-Party Data and Models (H) Task Force's Nov. 18, 2024, minutes (*see NAIC Proceedings – Fall 2024, Third-Party Data and Models (H) Task Force*). The motion passed unanimously.

3. Adopted the Reports of its Task Force and Working Groups

A. Big Data and Artificial Intelligence (H) Working Group

Commissioner Humphreys provided the report on the Big Data and Artificial Intelligence (H) Working Group's 2025 meetings and plans.

Commissioner Humphreys said that the Working Group met March 25 and adopted its March 11 minutes. During its March 11 meeting, the Working Group took the following action: 1) adopted its 2024 Fall National Meeting minutes; 2) received an update on the health artificial intelligence (AI)/machine learning (ML) survey; 3) reviewed its 2025 charges, including those of the AI Systems Evaluation Workstream; 4) discussed updates to the regulatory framework for the use of AI systems; and 5) discussed a preview of its Spring National Meeting agenda.

During its March 25 meeting, the Working Group also heard a presentation on the preliminary results from the health AI/ML survey. The health AI/ML survey continues the series of AI surveys issued by regulators, with previous surveys covering life, auto, and homeowners lines of business. The full report of the health AI survey is anticipated to be issued in April. The health AI survey specifically focused on major medical and student health plans, with 93 companies surveyed by 16 participating states. High-level findings show that 83% of the respondents actively use AI, with another 9% planning implementation. The increased utilization compared to past surveys is attributed to the recency of this health AI/ML survey.

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Commissioner Humphreys next spoke about the Working Group's efforts to look at the creation of risk evaluation tools that could include changes to market and financial exams, Market Conduct Annual Statement (MCAS) data submissions, development of evaluation metrics, guidance, and tools on regulator expectations on the use of AI. The Working Group has been leading discussions to consider what the regulatory framework might look like in the future, given the use of AI in the insurance industry.

The Working Group also heard a presentation from NAIC staff on how missing data is treated and its implications in ratemaking. The discussion covered examples of situations where missing data can arise and how it may be treated in ratemaking. It was noted that a "missing" or an "unknown" category may not satisfy Actuarial Standard of Practice (ASOP) 12, *Risk Classification (for All Practice Areas)*, as a valid risk characteristic since it may represent a heterogeneous group of risks. Including such categories may result in biased rating plan factors.

Director Richardson commented that the Working Group's presentation during its meeting included a mention of a possible self-audit questionnaire. The tool may benefit regulators as a tool to be used during exams and may also be a tool companies can use to help with their risk-benefit analysis as they integrate AI into their processes. Such tools could add to those already available to regulators via NAIC exam handbooks. Tools could be developed leveraging risk-focused concepts already built into many NAIC processes.

Director Richardson asked for public input, for example, on whether there is a desired means or existing format companies should use to provide governance information to regulators. Director Richardson drew a comparison to the Own Risk and Solvency Assessment (ORSA) and Corporate Governance Annual Disclosure reports as possible templates to be leveraged.

Peter Kochenburger (NAIC Consumer Representative) asked for clarification on the possibility that new exam tools could be driven by risk-focused analysis and whether that included consideration of risk to policyholders. Director Richardson responded that regulators already evaluate company operations based on risk, which includes consideration of controls to mitigate risk, and acknowledged that the consideration of risk includes a consideration of risk to policyholders.

Dave Snyder (American Property Casualty Insurance Association—APCIA) thanked the Committee for the opportunity to give input on the discussion and asked about how the regulatory discussion on AI would proceed and how industry could give input. Director Richardson noted that the Working Group will ultimately drive initial discussions. Commissioner Humphreys noted that there would be more opportunities for input as the Working Group's deliberations continue. Miguel Romero (NAIC) noted that industry members should consider how they want to provide information to regulators on their use of AI, as that sort of input may help inform future discussions at the working group level.

B. Cybersecurity (H) Working Group

Amann gave an update on the Cybersecurity (H) Working Group's work. She said that the Cybersecurity (H) Working Group met Feb. 20. During this meeting, the Working Group heard a presentation from Cowbell, a leader in cyber insurance for small and medium-sized enterprises. The presentation provided an overview of the cyber risk landscape, insurance market, coverages, and effective risk management practices for small and medium-sized enterprises in the healthcare and financial services industry.

Amann reported that the Working Group also met March 13 and discussed its work plan for 2025, which includes several projects for the year. The first project is to identify key data elements related to both cybersecurity and cyber insurance. She said that cyber coverage is reported in several places in the annual statement, quarterly statements, and cyber blank. The Working Group will evaluate all information reported to ensure the information reported fully meets regulatory needs. She said the Working Group would collaborate with the Casualty Actuarial

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and Statistical (C) Task Force and the Statistical Data (C) Working Group on data-related discussions. The Working Group will also continue with discussions to study the feasibility of creating a centralized portal to receive cybersecurity incident notifications at the NAIC. The Working Group believes a notification portal will help to streamline the reporting process and effectively solve the one-to-many problems the industry has reporting cyber security events to regulators.

Amann closed by mentioning that the Working Group will also be working to build and facilitate NAIC cybersecurity tabletop exercises as a way to address a referral asking the Working Group to comment on the way regulators review for compliance with the *Insurance Data Security Model Law* (#668) and create cybersecurity training for regulators.

C. Privacy Protections (H) Working Group

Director Dwyer provided an update on the Privacy Protections (H) Working Group's ongoing work to develop an updated draft of the *Privacy of Consumer Financial and Health Information Regulation* (#672).

She said that following the 2024 Fall National Meeting, the Privacy Protections (H) Drafting Group met Dec. 19, 2024, in open session and heard comments on Article III, Section 6—Access, Correction, and Deletion of Nonpublic Personal Information, Section 7—Sale of Nonpublic Personal Information, and Section 8—Use and Disclosure of Sensitive Personal Information of Model #672.

The Working Group also met Jan. 17, 2025, in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss Article III and next steps for drafting. As a result of these meetings, the Working Group released a revised Article III, which can be found on the Working Group's web page under "Exposures." Comments are not being requested on Article III at this time. There will be a public comment period following the next exposure of the complete revised draft of Model #672.

The Privacy Protections (H) Drafting Group met Feb. 28 in open session and heard comments on Article IV, Section 9—Initial Privacy Notice to Consumers Required; Section 10—Annual Privacy Notice to Customers Required; Section 11—Information to be Included in Privacy Notices; Section 12—Form of Opt Notice to Consumers and Opt Out Methods; Section 13—Revised Privacy Notices; Section 14—Privacy Notices to Group Policyholders; and Section 15—Delivery of Model #672.

Director Dwyer said the Working Group did not meet at the Spring National Meeting; however, the Drafting Group continues to make steady progress revising Model #672 section-by-section and will continue to hold open and regulator-only meetings as needed. The Drafting Group will submit the full revised draft of Model #672 to the Working Group for consideration and exposure once the section-by-section review is complete.

D. SupTech/GovTech (H) Subgroup

Bradner provided an overview of the SupTech/GovTech (H) Subgroup's work. He said he would co-chair the Subgroup with Lori Dreaver Munn (AZ) in 2025. The Subgroup operated informally last year but is now formally structured as a Subgroup of the Committee. The Subgroup now has charges and a public page on the NAIC's website. Bradner also said that because the Subgroup's focus is on educational discussions, it anticipates generally meeting in regulator-only settings. To make sure that this work proceeds in a way that serves the NAIC's members, the Subgroup is going to survey regulators to understand both opportunities for solutions and pain points so that any solutions explored are responsive to member needs. The Subgroup is hoping to move quickly enough to meet in April.

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E. Third-Party Data and Models (H) Task Force

Commissioner Conway provided a report on the work of the Third-Party Data and Models (H) Task Force. He said that going forward, Jason Lapham (CO) will serve as the chair and noted that the Committee is converting the Task Force into a working group. He said the soon-to-be Working Group anticipates meeting soon after the Spring National Meeting once it has time to discuss the results of a regulator survey to obtain input on its work.

F. Data Call Study Group

Schulz provided an overview of the plans for the Data Call Study Group in 2025. He said the Data Call Study Group is first creating an inventory of the various data elements collected by the NAIC/regulators and their definitions. NAIC staff are currently generating an extensive index of the data elements captured in statutory financial statement filings along with definition references to NAIC publications. As the study group's chair, Schulz is organizing some volunteer regulators to begin a similar index of data elements and definitions from prior state data calls. NAIC staff and study group members will next finalize an index and definitions for additional NAIC data sets, including the MCAS data elements. Once the indexing work is completed, the Data Call Study Group will meet in regulator-only sessions (because specific data calls or company-specific data may be discussed) to compare the existing data elements to express regulator needs and identify any gaps. Upon completion of this gap identification work, the study group will bring in industry representatives from key insurers and trade associations to review the regulators' list of data element gaps and their definitions and provide comments. The Data Call Study Group will finalize its list of needed data elements and definitions, after which this work will move to operationalizing this data collection.

Schulz concluded his report by reminding meeting attendees that the purpose of the study group is to help drive discussions to reduce the number of ad hoc data calls requested by different states at different times using inconsistent definitions and promote more consistency in those ad hoc data calls while improving regulators' data in terms of elements collected, timeliness, and consistency.

Director French made a motion, seconded by Commissioner Grant, to adopt the report of the Big Data and Artificial Intelligence (H) Working Group (Attachment One), Cybersecurity (H) Working Group (Attachment Two), and Privacy Protections (H) Working Group. The motion passed unanimously.

4. Adopted its Revised Charges

Director Richardson said that consistent with several other changes to NAIC groups, the Committee intends to convert the Third-Party Data and Models (H) Task Force into a working group. She said no changes would be made to the work, which continues to be a priority. Director Richardson also thanked Colorado and Florida for continuing to serve in leadership roles to guide the work going forward.

Commissioner Yaworsky said this was a good decision to make, given the technical focus of the work.

Commissioner Conway made a motion, seconded by Commissioner Yaworsky, to adopt the Committee's revised charges, including converting the Third-Party Data and Models (H) Task Force into a working group. The motion passed unanimously.

5. Heard a Presentation from Travelers on the Responsible Use of AI

David McMichael (Travelers) said that Travelers' Responsible Use of AI Framework is built around four pillars: people-centricity, fairness, responsibility, and trustworthiness. Those pillars are supported by 12 principles:

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human oversight, privacy and security, diverse perspectives, lawful use, fair access, bias mitigation, accountability, governance, monitoring, transparency, explainability, and proportionality.

McMichael emphasized the importance of human oversight, especially in decisions directly impacting customers. He detailed the collaborative process between modelers and technology teams for ongoing monitoring and implementation.

Regarding the *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers* (AI Model Bulletin), McMichael said Travelers likes the principles-based and risk-based perspectives the AI Model Bulletin takes. He said this allows for the proper balance between effective use of resources and effective risk mitigation. He said he also appreciated the adoption of the AI Model Bulletin by 24 states, which ensures regulatory consistency. Lastly, he said he liked that the AI Model Bulletin leveraged existing authority.

McMichael closed with comments on Travelers' model governance processes. He said that the company conducts comprehensive reviews of its models, running them through a multidisciplinary process that includes, as appropriate, peer legal, actuarial, and data science assessments that span the entire model life cycle. He said the company's model governance is embodied in its model risk management (MRM) framework. There are also several critical elements of the model risk management framework, including: 1) a document called Travelers Modeling Guidelines, which provides overall guidance throughout the model life cycle to the practitioners; 2) a risk assessment tool used to evaluate the risk level of each model; 3) a model checklist that specifies the required risk mitigation controls based on the risk level of the model; and 4) the official inventory of the models.

Chou thanked Travelers for presenting to the Committee. Chou noted that financial exams do already include procedures to review enterprise risk management (ERM) programs. Chou also noted that Actuarial Standards of Practice (ASOPs), including ASOPs No. 38 – Catastrophe Modeling (For All Practice Areas) and No. 56 – Modeling, are also relevant resources.

Director Richardson asked about the factors that drive decisions to have humans in the loop with Travelers' use of AI. McMichael said that the company thinks about how closely coupled the decision is to the customer impact and that whenever there is a direct impact on customers, for instance, related to pricing or underwriting decisions, humans are involved in the review process.

Eric Ellsworth (NAIC Consumer Representative) then asked if McMichael could comment on the company's processes for integration testing. McMichael said that testing is a part of the model implementation process from the outset and starts with an understanding of the need for a model, the quality of the data, and then a detailed evaluation of model performance at a variable-by-variable level. The company continues with testing post-implementation. Ellsworth then asked who owns the outputs. McMichael said it depends on the model but that it is usually a collaboration of sorts among several teams. He also stated that there is always a single point of contact for each model, but several people may be involved in addressing concerns.

Commissioner Yaworsky thanked McMichael for the thoughtful presentation. Director Richardson also thanked McMichael for the presentation and Travelers' willingness to put so much information about its use of AI on its website.

6. Heard an Update on Federal Activities

Shana Oppenheim (NAIC) gave a federal update on the areas of cybersecurity, regulatory harmonization, cyber insurance, data privacy, and AI. Oppenheim suggested that the more state regulators make progress in key areas, the better she is able to argue against federal pre-emption on key areas of regulatory interest.

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Oppenheim noted that there is political will to take action, but the rest of President Trump's political priorities are focused on tax cuts and federal government reforms, so there may not be political will to take action soon.

Regarding cybersecurity, Oppenheim noted that President Trump has nominated Sean Plankey to lead the Cybersecurity and Infrastructure Security Agency (CISA), signaling a shift in focus toward risk reduction and addressing threats from China. Plankey, a former cybersecurity official and U.S. Cyber Command veteran, has advocated for stronger cybersecurity measures, including stricter "Know Your Customer" (KYC) rules for cloud providers and enhanced critical infrastructure protections. His nomination follows Republican criticism that the CISA has overreached, with some pushing for downsizing or eliminating the agency. Oppenheim also noted that the Office of Personnel Management is investigating whether cuts by the Department of Government Efficiency (DOGE) have created cybersecurity vulnerabilities, particularly concerning unauthorized access to government networks.

Regarding cybersecurity and regulatory harmonization, Oppenheim said that lawmakers continue to push for harmonization of cybersecurity regulations to ease compliance burdens. A recent House Committee on Homeland Security hearing underscored the growing challenge of fragmented cyber incident reporting requirements. Witnesses urged the Office of the National Cyber Director (ONCD) to lead efforts in streamlining these mandates to prevent the diversion of resources away from security priorities. The House-passed Continuing Resolution includes a $4.3 million cut to CISA operations while extending the National Cybersecurity Protection System (NCPS) through September 2025. Meanwhile, DOGE's abrupt termination of key contracts has dismantled CISA red teams and reduced funding for critical cyber threat-sharing initiatives, raising national security concerns. Congress is also reviewing the effectiveness of the 2022 Cyber Incident Reporting for Critical Infrastructure Act (CIRCIA), with lawmakers emphasizing the need to simplify compliance while maintaining security efficacy. Witnesses expressed concern over the SEC's cyber disclosure rule, arguing it may undermine national security.

Regarding cyber insurance and legislative developments, Oppenheim noted that cyber insurance has gained congressional attention, with Rep. Eric Swalwell (D-CA) exploring credentialed third-party cybersecurity contractors to aid small and medium-sized businesses in active cyber defense. Further, the Insurance Cybersecurity Act of 2025 has been reintroduced by Sen. John Hickenlooper (D-CO). The bill mandates that the National Telecommunications and Information Administration (NTIA) establishes a working group on cyber insurance to provide guidance for issuers, customers, and state insurance regulators regarding coverage evaluation.

Regarding data privacy and oversight, Oppenheim said that the House Committee on Energy and Commerce chair Rep. Brett Guthrie (R-KY) is drafting a new bipartisan data privacy bill following opposition to previous legislative efforts. The Committee also released a request for information (RFI), with comments due April 7, on these topics. Ranking Member Rep. Maxine Waters (D-CA) has also requested a U.S. Government Accountability Office (GAO) study on the impact of AI on the insurance industry, particularly in underwriting, claims processing, and risk assessment. The study will examine AI's effects on pricing, availability, and claims handling, especially in climate-related disasters. Additionally, it will evaluate regulatory oversight and data transparency issues. Lastly, Oppenheim stated that AI's role in cybersecurity remains a Senate priority, with CISA warning of AI-enabled zero-day vulnerabilities capable of widespread disruption at low cost. Hearings on AI's implications for cyber defense are expected to continue in the Senate Armed Services Cybersecurity Subcommittee.

Oppenheim concluded by saying that as cybersecurity threats evolve, federal policymakers are balancing regulatory simplification with security imperatives. The intersection of cyber insurance, data privacy, and AI-driven risk assessment continues to draw congressional attention, underscoring the importance of engagement from state insurance regulators in these ongoing discussions.

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Kochenburger asked if any of the federal legislative efforts include the possibility of federal pre-emption. Oppenheim said that some legislative bills had pre-emption language, but they often included carve-outs for Gramm-Leach-Bliley Act (GLBA)-compliant parties and that, regardless, those bills did not pass and have not been reconsidered.

Having no further business, the Innovation, Cybersecurity, and Technology (H) Committee adjourned.

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Big Data and Artificial Intelligence (H) Working Group
Indianapolis, Indiana
March 25, 2025

The Big Data and Artificial Intelligence (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met March 25, 2025. The following Working Group members participated: Michael Humphreys, Chair, Shannen Logue, and Michael McKenney (PA); Doug Ommen, Co-Vice Chair (IA); Mary Block, Co-Vice Chair (VT); Molly Nollette and Sharon Comstock (AK); Mark Fowler (AL); Tom Zuppan, Barbara D. Richardson, and Lori Munn (AZ); Ken Allen (CA); Michael Conway (CO); George Bradner and Wanchin Chou (CT); Karima M. Woods (DC); Richie Frederick and Nicole Crockett (FL); Weston Trexler (ID); Julie Rachford and Joanna Coll (IL); Holly W. Lambert and Jake Vermeulen (IN); Shawn Boggs (KY); Nathan Strebeck (LA); Caleb Huntington (MA); Marie Grant (MD); Sandra Darby (ME); Jeff Hayden and Kevin Dyke (MI); Phil Vigliaturo (MN); Jo A. LeDuc (MO); Tracy Biehn (NC); Colton Schulz (ND); Connie Van Slyke (NE); Christian Citarella (NH); Alexia Emmermann and Gennady Stolyarov (NV); Kevin Yan (NY); Matt Walsh (OH); Teresa Green (OK); Elizabeth Kelleher Dwyer and Matthew Gendron (RI); Andreea Savu (SC); Travis Jordan and Frank Marnell (SD); Emily Marsh (TN); Rachel Cloyd and Randall Evans (TX); Eric Lowe (VA); Bryon Welch (WA); Nathan Houdek, Timothy Cornelius, and Lauren Van Buren (WI); Lela D. Ladd (WY). Also participating were: Peter Fuimaono (AS); Trinidad Navarro (DE); Vanessa DeJesus (NM); and Tregenza Roach (VI).

1. Adopted its March 11 Minutes

Commissioner Humphreys said the Working Group met March 11. During this meeting, the Working Group took the following action: 1) adopted its 2024 Fall National Meeting minutes; 2) received an update on the health artificial intelligence (AI)/machine learning (ML) survey; 3) reviewed its 2025 charges, including AI systems evaluation; 4) discussed updates to the Regulatory Framework for the Use of AI Systems; and 5) discussed a preview of its Spring National Meeting agenda.

Commissioner Ommen made a motion, seconded by Commissioner Fowler, to adopt the Working Group's March 11 minutes (Attachment One-A). The motion passed unanimously.

2. Heard a Brief Presentation on the Health AI/ML Survey

Commissioner Humphreys provided an update on the status of the health AI/ML survey and highlighted some key findings. He stated that the Working Group completed the collection of data earlier this month and is currently drafting the report that will include all the survey results. He thanked the insurance companies and consumer advocate groups that provided insights on the questions and structure of the survey. He confirmed that as with the other surveys, the goals for collecting data on the use of AI in health insurance were driven by the Working Group's need to understand how companies are using AI across the insurance product life cycle and in insurance operations.

He stated that the survey was restricted to comprehensive major medical and student health insurance, recognizing that future surveys may address other health product lines under the Working Group's authority and that the questions also focused on understanding how third-party data and models are deployed, how governance frameworks are structured, and how well company governance frameworks align with the NAIC *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers*.

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Commissioner Humphreys said that 93 companies met the criteria and submitted responses to the survey. Seventy-eight companies (83%) are actively using AI in their insurance operations, while another eight companies (9%) are either planning or exploring the use of AI in their operations. He compared the adoption rate of AI in health insurance (92%) to the 88% reported in the auto survey, 70% in the home survey, and 58% in the life survey. Of the companies that have not adopted AI, most companies indicated they had no compelling reason for non-adoption. The second most common reason for non-adoption was a lack of sufficient resources, good information technology (IT) systems, and/or data. Further, he stated that strategic operations were reported as the top area using AI, followed by utilization/severity/quality management, fraud detection, and sales/marketing. Companies also indicated that their AI governance committees provide guidance for AI usage to internal business areas to help achieve short- and long-term objectives.

Logue stated that ensemble models were the most common types of machine learning techniques. Large language models were among the top three techniques given their explosive growth in usage in insurance and other industries, and decision trees and clustering were also widely used. She said a vast majority of companies appear to be developing their own models using third-party components, which can include algorithms developed by third parties as well as third-party insurance scores and other data elements. Further, 80-82% of companies are documenting their AI processes for accuracy and reliability. A good number of companies are testing their models for model drift and bias, and companies are documenting their models for unfair discrimination. She reported that few companies are inferring protected class characteristics, since few protected class inference methods exist, and some companies in the focus group sessions expressed concerns regarding the accuracy of existing methods.

Regarding AI governance, Logue reported that over 90% of the companies surveyed have developed AI governance principles that align well with the NAIC AI principles. However, compliance drops when it comes to specific practices, such as allowing health insurance applicants to contest adverse underwriting decisions, maintaining logs of those contested decisions, and disclosing AI/ML use to providers or physicians. There is especially low activity disclosing to providers or physicians how and when AI is used by the insurer or a third-party vendor.

Regarding human involvement, Logue reported that 98% of companies said fewer than half of their AI processes are used for automation, 85% said the same for augmentation, and 70% for supporting decision-making. Commissioner Humphreys closed by stating that the plan is to give a more detailed report at the Summer National Meeting, which will be after the full report has been published on the NAIC website.

Commissioner Conway commented that there is a big difference between the data on testing for unfair discrimination versus being able to infer race. He asked whether there was any insight into what was driving that difference. He added that the Colorado Division of Insurance believes that race can be inferred. Trexler asked whether the report would provide more details about the use of AI in utilization, severity, quality management, and fraud detection. Commissioner Humphreys confirmed that the report would provide more details.

3. Received an Update on the Regulatory Framework for the Use of AI Systems

Commissioner Ommen said that the Working Group is looking forward to receiving input as the AI systems evaluation work plan is being developed and encouraged the membership to contribute to the discussion.

Commissioner Humphreys said that the AI Principles were adopted five years ago, and the Working Group has worked through AI/ML surveys of four major insurance lines of business. While that was in process, the Working Group issued the NAIC AI model bulletin roughly two years ago, and at this point, there are 24 states that have either adopted the bulletin or pursued legislation, and four additional states have adopted related activity. He identified this as the first pillar, with the second being transparency. The focus, he said, should be on clarifying

what kind of information is shared, where and when AI is being used—whether in operations or consumer-facing initiatives—and when consumers and other stakeholders, such as providers, should be informed of that usage.

The third pillar involves guidelines, oversight, and possibly prohibited practices. The Working Group has heard from consumer groups about the importance of having a human in the loop, for example, in health insurance prior authorization. In other words, should it be required that prior to an adverse decision, it should be reviewed by a human being rather than moving the process faster.

Logue said the fourth pillar will be a constant process where, as the technology advances, the Working Group will need to constantly assess where the missing gaps are. Then she provided more information on the second pillar by stating that several states have already started to explore how to do evaluations on AI systems from the financial and market conduct sides. The Working Group pulled those states together and started to have discussions on how they are assessing the risk that comes along with the use of AI by an insurance company. She noted that one of the concerns voiced by insurance companies is having to answer different questions from each state, so the Working Group wants to provide regulators with an efficient and standardized data collection tool that they can use in their investigations and examinations to assess and evaluate risk, along with providing the guidance needed to align with regulator expectations and information needed from the Market Conduct Annual Statement (MCAS). The Working Group recognizes the need to coordinate across different NAIC groups to develop and review enforcement tools and guidelines. One of these tools is to create a self-audit questionnaire to help understand what is expected from insurance companies.

Logue provided more information on the third pillar by confirming that the Working Group recognizes the need to collaborate across all NAIC committees and working groups in developing governance by identifying best practices and guidance on AI testing, model training, drift detection, identifying adverse consumer outcomes, and risk classification, based on the primary things the Working Group has heard. The Working Group is looking into transparency around AI use and data disclosures, including the extent of human involvement in certain decisions, the rationale behind those decisions, and the availability of an appeals process. AI complaint tracking would also be beneficial to help understand where there may be consumer harm.

Commissioner Humphreys noted that Pennsylvania is one of the states asking questions at the front end of financial exams now, and the Working Group wants to talk to a couple of other states to achieve a more uniform approach to discuss publicly. The Working Group wants to build out the transparency and accountability pieces, which may require an additional bulletin or new general model legislation.

Commissioner Ommen stated, in reference to the AI Systems Regulatory Framework Roadmap, that Iowa adopted its model bulletin recently, has been working within its teams to develop a program of interaction with insurance companies, and found the four-pillar road map to be helpful.

Chou commented that regulation for third-party models and data transparency and consistency under the governance standard are important for better AI governance. Trexler commented that developing standardized tools is useful for states that have limited resources. LeDuc hoped that the Working Group would establish a regular reporting structure to provide an update so that subject matter experts (SMEs) could help guide the conversation. Commissioner Humphreys confirmed this would be the case.

Eric Ellsworth (Consumers' Checkbook) said he appreciates the focus on governance and accountability and commented on areas that impact consumers, especially in health insurance, that have to do with process automation, such as prior authorization, claims adjudication, and other processes. He flagged important issues for regulators to consider as insurers operationalize models and automate processes, such as managing multiple sources of truth. He cited an example when an insurer uses prior authorization service, there are three sources of

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truth about the medical necessity rules: one in the document, one in its claims engine, and one in prior authorization, and he questioned whether these databases are kept in sync and what the recourse is. He also noted that there are data quality issues throughout health data sets that are at risk as processes become more automated and encouraged the Working Group to consider these issues in developing governance.

Peter Kochenburger (Southern University Law Center—SULC) asked whether insurance consumers are better informed and better protected specifically in this area now than they were when the AI Principles were adopted in 2020. He noted that there has yet to be a specific guideline, such that consumers are in the same position as they were four or five years ago in regard to transparency, consumer protections, rights in questioning information, recourse, and how their information is shared.

Commissioner Humphreys disagreed with Kochenburger by noting that the bulletin, where it has been adopted by the states, reminds insurance companies that consumers have rights under existing insurance laws and regulations. Humphreys agreed with Kochenburger that regulation should be developed faster and in uniformity, especially about transparency, treatment, and disclosures.

Kochenburger additionally noted that the federal government announced that it is considering a preemptive federal rule on data privacy and perhaps on the use of AI. Block noted that there is a separate but related NAIC workstream on consumer data privacy that is working to develop guidelines on consumer rights for the sale of that data. Miguel Romero (NAIC) noted that there is a federal update in scope for the Innovation, Cybersecurity, and Technology (H) Committee agenda on March 26.

Brian Bayerle (American Council of Life Insurers—ACLI) appreciated the proposed regulatory framework road map and how that might guide the work plan. He noted that the overall steps seem reasonable and stressed that it is imperative to focus on its charge to monitor and promote the model bulletin implementation which should include an assessment of the effectiveness of the bulletin by collecting lessons learned from both the industry and regulators before contemplating what tools or additional requirements may be necessary.

Commissioner Humphreys agreed that the Working Group should track the implementation of the model bulletin but disagreed that an assessment of its effectiveness has to come first because important conversations need to continue while the Working Group learns the lessons at the same time.

Scott Harrison (American InsurTech Council—AITC) commented that the process laid out is coherent and risk-based and aligns with what the industry and stakeholders need in terms of guidance. He said the AITC looks forward to participating in further discussions.

Lucy Culp (Leukemia & Lymphoma Society—LLS) requested more information on how the Working Group is approaching the application of the framework across different lines of business and if different lines of insurance will be handled separately. Commissioner Humphreys responded that there will be some elements that will be uniform across lines, such as governance, market conduct, and financial reporting, but there may be differences in MCAS reporting, exam processes, disclosures, financial reporting, and prohibited practices for different lines of business. Logue added that the Working Group recognizes the different model use applications and different risks of adverse consumer outcomes. Culp asked how the work would intersect with the regulatory framework on prior authorization. Commissioner Humphreys responded that as the Working Group starts to build out the process, it will work with groups that have processes that are also in play in the AI space, and Pennsylvania will join the prior authorization drafting group if allowed.

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Armand Glick (Utah Insurance Fraud Division) commented that AI is evolving rapidly in insurance fraud detection nationwide, and its effectiveness relies on the quality and availability of data collected by insurers. For example, insurance companies often collect photographs during the claims process, but many strip important metadata by resizing images, converting them to PDFs, or making other changes. This limits the ability of AI to detect fraud, such as identifying duplicate images across claims or spotting forged documents based on metadata like the author or the software used. He asked whether the Working Group has considered model regulations or requirements for insurers to preserve original documents and metadata for use by fraud divisions and regulators and whether this issue falls within the group's scope or would be better suited to the Antifraud (D) Task Force. Commissioner Humphreys responded that the Working Group would work with the Task Force, as its involvement would be important in shaping the next steps.

David Snyder (American Property Casualty Insurance Association—APCIA) commented that state regulators' active involvement has been crucial in preventing harmful state legislation and curbing certain federal activities. He said the APCIA urges regulators to remain actively engaged on the issue and thanked them for their efforts. He added that it is important to preserve key definitions in the bulletin, such as adverse consumer outcomes, and adhere to its core principles. He noted that the bulletin recognizes the value of flexibility among carriers and urged that this approach be maintained moving forward.

He added that another key element of the bulletin is that it recognizes that existing legal standards apply to AI and that existing regulatory processes, such as consumer complaint processes, should be used when issues arrive, just as they are in other contexts. He stressed the importance of upholding these standards and processes.

Finally, he noted a shared interest in developing a more standardized regulatory approach to implementing the bulletin. He closed by praising regulators for their collaborative and transparent work, adding that their leadership has positioned the insurance sector ahead of nearly every other industry, which has been critical in fending off unfavorable legislation.

Commissioner Humphreys responded that the Working Group has additional points to consider as it moves forward and aims to accelerate progress while working collaboratively and publicly. The Working Group will continue to develop each pillar to facilitate public conversations on those topics.

4. Heard a Presentation on the Treatment of Missing Data and Implications in Rate Making

Kevin Burke (NAIC) presented the reasons missing data can arise and the issues it could cause in rate making. The issue of missing data has become more prevalent, as data used in models reviewed by the Casualty Actuarial and Statistical (C) Task Force includes missing values, such as in aerial imagery purchased from third-party vendors, where the number of square feet may be missing 30% of the time.

He stated that the actuarial community has been behind other statistical fields in handling missing data. In actuarial work, missing data often appears in generalized linear models for credit-based insurance scores, particularly in the form of "thin hits" and "no hits" from credit-based insurance score providers. These categories can result from various factors, such as the age of policyholders, religious beliefs, and other reasons. Typically, rates are determined by averaging credits and surcharges from individuals with credit scores. However, the use of missing data in these models is a decision made by the company and can lead to biased results. He gave the example of roof conditions identified via aerial imagery, noting that missing data, in this case, may not comply with Actuarial Standard of Practice (ASOP) No. 12 on Risk Classification, which requires data to be objective and practical.

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Commissioner Humphreys summarized by asking if two identical houses in the same neighborhood across from each other—one with complete credit score information and the other without—might be rated differently, and whether that situation is unfair. Burke confirmed that this situation would be unfair.

Having no further discussion, the Big Data and Artificial Intelligence (H) Working Group adjourned.

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Draft: 3/31/25

Big Data and Artificial Intelligence (H) Working Group
Virtual Meeting
March 11, 2025

The Big Data and Artificial Intelligence (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met March 11, 2025. The following Working Group members participated: Michael Humphreys, Chair, and Shannen Logue (PA); Doug Ommen, Co-Vice Chair, Daniel Mathis, and Amanda Theisen (IA); Mary Block, Co-Vice Chair (VT); Alex Romero and Molly Nollette (AK); John Buono and Stacy Farris (AL); Tom Zuppan and Barbara D. Richardson (AZ); Ken Allen (CA); Jason Lapham (CO); Wanchin Chou (CT); Paul Walker (FL); Weston Trexler (ID); Jennifer Niles (IL); Jake Vermeulen (IN); Patrick Smith and Lori Cunningham (KY); Nathan Strebeck (LA); Caleb Huntington (MA); Marie Grant (MD); Sandra Darby (ME); Jeff Hayden (MI); Jacqueline Olson and Phil Vigliaturo (MN); Cynthia Amann (MO); Tracy Biehn (NC); Colton Schulz (ND); Connie Van Slyke (NE); Christian Citarella and Gregory Arce (NH); Gennady Stolyarov (NV); Adrienne A. Harris and Kevin Yan (NY); Matt Walsh (OH); Andreea Savu (SC); Travis Jordan (SD); Carter Lawrence and Emily Marsh (TN); J'ne Elizabeth Byckovski and Rachel Cloyd (TX); Michael Peterson (VA); Bryon Welch (WA); Timothy Cornelius and Lauren Van Buren (WI); Joylynn Fix (WV); and Lela D. Ladd (WY).

1. Adopted its 2024 Fall National Meeting Minutes

Block made a motion, seconded by Ladd, to adopt the Working Group's Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee, Attachment One*). The motion passed unanimously.

2. Received an Update on the Health AI/ML Survey

Logue thanked the insurance companies that responded to the health artificial intelligence (AI)/machine learning (ML) survey. She stated that the Working Group anticipates having a more detailed summary at the 2025 Spring National Meeting and that the full report should be available in April. She thanked consumer advocates for providing us with their areas of concern.

Logue provided an update on the follow-up private passenger auto (PPA) AI survey interviews. She stated that the Working Group met with a handful of companies with a national footprint and asked them about changes in their use of AI within their operations, how they are currently using AI, how they are engaging with third-party vendors, and the status of developing their governance practices. She then presented a summary of the responses with the caveat that it consisted of a small sample size, in which she noted that 64% had changed their use of AI in their operations. She said 56% of respondents changed their use of AI in marketing, 0% changed their use for underwriting, 28% changed their use in general operations, and 18% changed their use in telematics. Logue said that 91% of respondents advised that the *NAIC Model Bulletin on the Use of Artificial Intelligence Systems by Insurers* (AI Model Bulletin) was helpful, 91% conduct regular audits to measure and validate the performance of their models, and 82% measure outcomes for unfair discrimination. She said 50% of insurers were able to validate that their marketing models do not inadvertently exclude certain cohorts. Logue stated that 72% responded that they require vendors to demonstrate that they have tested their models prior to use, and 46% independently test vendor models. However, no companies responded that they use third-party data to test for unfair discrimination, data, and algorithmic outcomes.

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Further, Logue stated that the company responses to the governance questions spanned the spectrum, from companies that had documented their framework well to companies whose governance was still conceptual. Regarding compliance, several companies responded that they had fully inventoried their models and training data, but others had not. Some companies established criteria for ranking risk, but others were looking for guidance from regulators. Similarly, the responses to whether model drift and adverse outcomes were tested ranged from applying sophisticated methods to minimal testing, if any, with some companies looking for more guidance from regulators. Transparency disclosures and human-in-the-loop practices also varied greatly by company, along with assessing the risk of actual vendor-supplied AI systems.

Logue stated that emerging opportunities for regulators include: 1) establishing authority to hold third parties accountable or perhaps establish a national list of approved vendors that have been vetted; 2) providing guidance on transparency disclosures, allowing for consumer recourse; 3) providing uniform standards on governance practices; 4) providing guidance on governance, including how to test for adverse outcomes and standardized practices on allowable data elements and when human involvement is required to mitigate adverse impact to consumers; and 5) providing guidance on systems evaluations, including objective and specific questions consistent across lines of business and states, perhaps incorporating questions into annual statement filings, market conduct examinations, and/or financial examination reporting, and standardized questions based on model type.

Chou stated that regulators having authority over a regulated entity enhances consistency and improves efficiencies compared to waiting until an insurance company adopts a third-party model for subsequent review.

Earnest Collins (Regulatory Compliance and Examination [RCE] Consultants) asked what tools and automated processes are being used to help evaluate and regulate the different types of models and data processing. Logue replied that different companies use different tools, so there is not one solution out there to help with AI governance, how models are tested for drift, or how frequently models need to be tested. Collins followed up by asking what types of tools regulators will use to evaluate AI systems. Humphreys responded that discussing this topic is part of the Working Group's next steps.

Chou asked whether regulators have the right people and processes for proper review and recommended that regulators work with data scientists to help review models.

3. Reviewed its 2025 Charges, Including AI Systems Evaluation

Commissioner Humphreys stated that the NAIC adopted its Principles on AI and the AI Model Bulletin in 2023. The Working Group views the AI Model Bulletin as a reminder for insurers that existing laws, including consumer protections, apply. It explained regulator expectations of the responsible use of AI. Commissioner Humphreys stated that now is the time for the Working Group to provide additional recommendations, requirements, or guardrails to build on for the continued use of the AI regulation going forward.

Commissioner Ommen stated that the Working Group's charges include AI systems evaluation and gathering information about existing tools and resources available for regulating AI, assembling subject matter experts (SMEs) to develop new regulatory tools that many states are now using, and making this information readily available across the NAIC.

Peter Kochenburger (Southern University Law Center—SULC) clarified that this work effort is to essentially identify existing tools rather than develop specific consumer protections and does not seem to provide any new or additional protections for consumers than the last four years.

Commissioner Ommen clarified that this workstream does not have to do with developing model laws or changing the laws; it simply develops the regulatory tools in order to monitor and evaluate whether companies are operating their business consistent with the AI Model Bulletin's guidance. The purpose of this workstream is to bring together and share the tools being developed in the states in order to carry out those consumer protections.

Kochenburger commented that there is not another Innovation, Cybersecurity, and Technology (H) Committee group that is working on developing any new regulations, bulletins, model laws, or amending current laws to provide those rights, but it is heartening to hear that some states are looking to develop or have developed specific protections.

Birny Birnbaum (Center for Economic Justice—CEJ) noted three points. First, He said that in Logue's overview, there were comments from the industry about asking regulators to provide oversight of third-party vendors. He questioned why they are not required to be licensed when they are performing the same activities as the companies that are already licensed as advisory organizations. Next, Birnbaum said the NAIC Principles on AI included a requirement for companies to take actions to avoid proxy discrimination, yet the AI Model Bulletin does not mention proxy discrimination. He questioned whether the NAIC anticipates implementing the NAIC Principles on AI in that regard. Lastly, he said that Logue's overview stated that companies span across the spectrum in terms of governance. He asked whether there are numbers on that. He also asked how long regulators anticipate giving companies to comply with requirements that are already the law.

Commissioner Humphreys stated that the Third-Party Data and Models (H) Working Group is looking into the issues Birnbaum noted and that the Big Data and Artificial Intelligence (H) Working Group will have more opportunities for discussion at the Spring National Meeting.

4. Discussed Updates to the Regulatory Framework for the Use of AI Systems

Commissioner Humphreys said that regulators do not have a percentage of companies that have effective governance programs because of the small number of companies interviewed, but regulators want to build out a more continuous review process, whether through exams or analysis filings, as possibly the next step of discussions where regulators want feedback. In addition, regulators want future conversations and feedback on financial and market exam approaches and analyses that need to be done. Governance could consist of prohibited modeling practices, prohibited data elements, and disclosures both on the regulatory and the consumer side. California, Texas, and other states have either recently passed laws or have legislation pending that would provide additional regulation in the AI space. Humphreys urged state regulators to contribute feedback on the next steps to provide further clarity and guidance on disclosures to ensure consistency across the states.

Ladd asked if there has been any discussion on AI vocabulary definitions and gave an example of where the definition of "labor" in Wyoming was redefined as "services" in order to avoid depreciation.

Miguel Romero (NAIC) responded that the AI Model Bulletin includes several definitions to help clarify regulators' intentions, but as part of the drafting process, it is anticipated there will be further discussions on definitions.

Birnbaum questioned whether the issue is not about definitions but rather about the use of AI to circumvent regulatory or statutory intent and suggested that an AI tool is needed for regulators to identify actions by insurance companies to subvert regulatory or statutory intent.

Commissioner Humphreys noted a question from Wayne Turner (National Health Law Program—NHLP) regarding whether the Working Group plans to conduct a second health AI/ML survey on non-major medical plans. Commissioner Humphreys said the Working Group will wrap up the first health study and then will look at how

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the landscape has changed. He said the Working Group will then regroup and determine what its next steps are. Logue confirmed that the group will compile the report on the first health AI survey and then decide whether to continue the surveys.

Chou noted that he could help direct those interested in vendors providing AI tools that could help.

Eric Ellsworth (Checkbook Health) commented that he is looking forward to the AI strategy roadmap and clearer oversight of third parties. He also noted that data-sharing arrangements can cause implementation confusion. He gave the example that in prior authorization, there may be cases where there is a set of claims processing rules in the insurer's claims engine but a different set of rules in the prior authorization platform and wondered if this will be under review by the Working Group.

Commissioner Humphreys responded that those are the market conduct issues that the Working Group will be considering incorporating into an examination analysis.

5. Discussed a Preview of its Spring National Meeting Agenda

Commissioner Humphreys stated that the Working Group will be able to go into greater depth on the health AI/ML survey. He said the Working Group will be close to completing the report at the Spring National Meeting and will be able to talk through some of the results. Commissioner Humphreys said the Working Group will have a full discussion on how to narrow the next steps on the regulatory framework and build that out. He said the agenda will also include a brief presentation on the implications of missing data.

Having no further discussion, the Big Data and Artificial Intelligence (H) Working Group adjourned.

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Draft: 3/31/25

Cybersecurity (H) Working Group
Virtual Meeting
February 20, 2025

The Cybersecurity (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met Feb. 20, 2025. The following Working Group members participated: Cynthia Amann, Chair (MO); Michael Peterson, Vice Chair (VA); Julia Jette (AK); Chris Erwin (AR); Bud Leiner (AZ); Jennifer Bender (CA); Wanchin Chou (CT); Tim Li (DE); Elizabeth Nunes and Matt Kilgallen (GA); Lance Hirano (HI); Daniel Mathis and Travis Grassel (IA); C.J. Metcalf (IL); Shane Mead (KS); Katie Callahan (MD); Jeff Hayden (MI); Bubba Aguirre and T.J. Patton (MN); Troy Smith (MT); Tracy Biehn (NC); Colton Schulz (ND); Martin Swanson (NE); Christian Citarella (NH); Gille Ann Rabbin (NY); Don Layson and Matt Walsh (OH); Sebastian Conforto (PA); Rebecca Rebholz (WI); and Lela D. Ladd (WY).

1. Adopted its 2024 Fall National Meeting Minutes

Mead suggested correcting "liability" to "reliability" on page 4 of the Working Group's Nov. 18, 2024, draft minutes.

Schulz made a motion, seconded by Mead, to adopt the Working Group's corrected Nov. 18, 2024, (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Three)* minutes. The motion passed unanimously.

2. Heard a Presentation from Cowbell on Exploring the Cyber Insurance Market, Coverages, and Effective Risk Management Practices

Emma Werth (Cowbell Cyber Inc.—Cowbell) and Matthieu Chan Tsin (Cowbell) delivered an informational presentation providing an overview of the cyber risk landscape, insurance market, coverages, and effective risk management practices for small and medium-sized enterprises in the healthcare and financial services industry. Cowbell was created in 2019. Unlike other cybersecurity or cyber insurance providers, it focuses on small and medium-sized enterprises, and 90% of its market is based in the U.S.

Chan Tsin described that one of the more common challenges across the small and medium-sized enterprise landscape is getting business owners to understand they are potential victims of cybercrime or cyberattacks. To do this, he advised taking a view that is broader than one business at a time. Some recent reports have shown that over half of U.S. small and medium-sized enterprises do not have any cybersecurity measures, and over 40% with fewer than 50 employees have no cybersecurity budget. Chan Tsin suggested that many businesses Cowbell insures start with what he would call "cybersecurity on the cheap," meaning they rely on open source or free solutions. These small and medium-sized enterprises play a crucial role in the U.S. economy in terms of financial contribution but also in the form of data. They are not equipped to prevent cybercrimes since they are broadly connected to larger networks through vendor services or data-sharing agreements.

Healthcare and financial services are specifically targeted because they are both part of the U.S. critical infrastructure and hold sensitive information, including financial, health, and other private identifiers. Neither sector can afford to be offline or not render services on a daily basis, as some cyberattacks targeting these sectors have had very real physical consequences, like when hospitals are unable to provide life-saving care. An internal analysis of claims data found that many claims are triggered through social engineering, using manipulative techniques against high-pressure working environments and overburdened staff to gain access to internal systems

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and information. These exposures caused by phishing campaigns have resulted in fines to U.S. healthcare providers. Ransomware attacks often result in the exposure of highly sensitive and personal information, including patient medical details and images of patients pre- and post-surgery. Deep and dark web sources, as well as some open-source repositories, have been found to include data from several U.S. healthcare organizations. Similarly, Chan Tsin explained that ransomware attacks have long been one of the most significant threats to financial institutions. Ransomware attacks often cause significant downtime, exposure of critical customer and business information, and financial penalties. Ransomware attacks against technology providers upon which financial organizations rely can have negative repercussions. Chan Tsin highlighted a December 2023 incident where 60 U.S. credit unions faced outages after a ransomware attack targeted cloud services provider Ongoing Operations. He explained that threat actors seek to disrupt the financial sector of nations they deem adversarial to their own nation's policies, as observed during recent conflicts like those of Russia and Ukraine, as well as Israel and Hamas.

Chan Tsin showed that in reviewing Cowbell's claims data from 2024, data breaches and third-party events lead the way in causing a claim in healthcare. This is in part due to the reliance of the healthcare industry on third-party vendors or clients who may not do what they need to protect their networks appropriately. Finance and insurance claims show data breaches as the number one cause of claims. He said that when looking at what prompts Russian-affiliated groups to target or attack healthcare and financial services in the U.S., it can usually be described as having one of three purposes: 1) active measures or operations aiming to impact other nations' policies; 2) strategic deterrence or advanced operations aimed to level Russian military capabilities with those of western capabilities; and 3) providing easy money. Chan Tsin said these actors are part of the play by the Russians to counter what they see as an overwhelming military superiority from the U.S. He said we must view it as not just stealing money but also spreading their network and positioning themselves to take down capabilities that would be needed if conflict were to ever happen.

Chan Tsin explained that Cowbell's data shows the highest losses are associated with the healthcare, manufacturing, and professional services Industries. He further explained that while data recovery costs are typically 5%–20% of claims losses, they are not ever as expensive as the original incident response to events, typically accounting for 30%–60% of claims losses.

Werth explained that cyber insurance is currently in its second year of what is considered a soft market, where a competitive environment demands coverage differentiation in terms of coverage availability and form language. She described that ease of business has grown to be a key part of cyber business, almost as important as having critical vendor partnerships in place to enhance the experience offered to the policyholder. Cowbell provides a panel of professionals who are guaranteed to assist an insured as soon as they think they have something that may turn into a claim.

Werth explained that the healthcare industry is seen as a high-hazard and heavily targeted industry, as it is highly regulated and susceptible to business interruption and aggregation risk. Exposures typically include ransomware, data breaches, and privacy concerns. Werth said financial services are similarly highly regulated but are seen as low-hazard because claims in this industry are typically a matter of frequency over severity. Exposures typically include cybercrime risk, data breach, and privacy concerns. For healthcare, it is typically their network infrastructure or patching concerns that make them an underwriting challenge.

Werth introduced common cyber insurance coverages and explained that they are often split into two categories: first-party coverage and third-party coverage. First-party coverage would be for cybercrime, business interruption, ransom payment, and forensic investigation costs. Third-party coverage would be for cyber liability (i.e., providing protection from financial losses due to lawsuits from vendors or clients and regulatory fines and penalties caused by various network security events.)

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Werth described common sublimits and explained that they are the maximum an insurer will pay for coverage-related expenses within a policy. Within the cyber insurance market, common sublimits include cybercrime and post-remediation costs, as well as limits relating to investigating and quantifying financial losses from a cyber incident. The insurance community manages its exposure to systemic and catastrophic risk through policy exclusions. Werth said that some common cyber exclusions include bodily injury, property damage, and cyber war, including the use of a computer system against another computer system under the control of a sovereign state to cause a major detrimental impact on their essential service or defense.

Chan Tsin then discussed mitigations best suited to protect the small and medium-sized enterprises in the U.S. He explained that some good news from Cowbell's data analysis is that most compromises are not created because of a dedicated attack specifically targeting the victim(s). Chan Tsin added that the attacks against small and medium-sized enterprises attempt to compromise as many victims as possible; therefore, they are very broad and not the most sophisticated. Cowbell describes its Level 1 risk management strategies as cybersecurity awareness training, multi-factor authentication (MFA), and system updates and patches. Chan Tsin said an overwhelming majority of compromises can be tied to user error. He said a recent study of 600 policyholders identified that when a company can show employees complete the minimum training, the rate of compromise decreased by 50%.

Chan Tsin explained that Level 2 risk management strategies focus on system backups and network segmentation of the insured. He clarified that backups should be stored offsite and/or offline to protect them from being compromised and should be conducted at least monthly. He expressed that proper backups give the breach coach options and power when negotiating a ransom. Chan Tsin explained that dividing larger networks into smaller sub-networks using firewalls, for example, could help enhance the resilience of the business.

He explained that Cowbell's Level 3 risk management strategies would be considered more sophisticated and tend to be more expensive to implement. These strategies include Managed Detection and Response (MDR) services and Digital Forensics & Incident Response (DFIR) playbooks. Broadly, the industry has seen great success with MDR at endpoints to increase the speed of response and recovery while lowering the cost. DFIR playbooks must outline clear procedures for identifying, containing, and mitigating threats, as well as how evidence will be preserved. Chan Tsin emphasized the importance of practicing the DFIR playbooks through tabletop exercises, which helps to ensure companies understand what they would do if they were to get hit by a cyberattack and get everyone on board.

Werth provided an evolution of cyber insurance and underwriting from the 1990s through policies changing in response to cyber threats throughout the 2000s and 2010s and concluded with the present. She said cyber insurance is a growing market and an important component of a comprehensive risk management strategy. She introduced Cowbell Factors, explaining that every Cowbell Factor is a rating that contributes to the evaluation of an organization's cyber risk profile and, therefore, appropriate insurance coverage. Cowbell Factors apply continuous observation to map evolving cyber threats, using more than 1,000 data points and risk signals from a variety of sources. Werth said this system allows an underwriter to get a holistic view of the data in addition to the paper application. She added that from the underwriting perspective, in a nutshell, the top four key controls would be MFA, employee training, patch cadence, and backup hygiene (where they aren't backing up the problem, too). Cowbell's underwriting team will also provide consultative services to increase risk management efforts for loss prevention.

Werth concluded by briefly describing Cowbell's view on pricing healthcare and financial services. She said healthcare is viewed as a high risk, with hospitals presenting the highest risk given the exposure, and financial services have the potential to be a high-risk exposure. She said financial advice firms are viewed as a lower risk

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than insurance companies. She said other risk factors typically include revenue, security controls and compliance, and the insured's record count.

Amann expressed appreciation for the presentation and, in recognition of the time passed, reminded the Working Group of the interim call scheduled for March 13, during which the Working Group would discuss its proposed 2025 work plan, the cybersecurity and cyber insurance data wish-list, and the referral from the Chief Financial Regulator Forum.

Amann also asked Cowbell to opine whether a purchaser would understand the interplay of the sublimit and coverage within the policy or if something similar to a declarations sheet for cyber would be necessary. Werth explained that there is still a disparity in the small and medium-sized enterprise market space, but it is lessening. She suggested that a proficient broker would be critical. She added that a broker who is much more proficient in management liability is probably not as proficient in cyber.

Stephen Packard (Unaffiliated) inquired about the ethical oversight of paying ransom and how it is reported. Chan Tsin and Werth explained that there would never be a ransom paid that was not first approved by the Office of Foreign Assets Control (OFAC). Additionally, they explained that Europe has an existing insurance sector, but it is not seeing the level of ransomware observed in the U.S. They said that it is much more about the targeted entities themselves and the fact that U.S. companies have a lot more money.

Grassel expressed support for the work being done by Cowbell and across the country, explaining that cybersecurity is bigger than just insurance and protecting American consumers.

Having no further business, the Cybersecurity (H) Working Group adjourned.

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THIRD-PARTY DATA AND MODELS (H) TASK FORCE

The Third-Party Data and Models (H) Task Force did not meet at the Spring National Meeting.

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NAIC/CONSUMER LIAISON COMMITTEE

NAIC/Consumer Liaison Committee March 23, 2025, Minutes 13-2
NAIC/American Indian and Alaska Native Liaison Committee Feb. 25, 2025, Minutes (Attachment One) 13-13

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Draft: 4/4/25

NAIC/Consumer Liaison Committee
Indianapolis, Indiana
March 23, 2025

The NAIC/Consumer Liaison Committee met in Indianapolis, IN, March 23, 2025. The following Liaison Committee members participated: Grace Arnold, Chair (MN); D.J. Bettencourt, Vice Chair (NH); Lori K. Wing-Heier represented by Sarah Bailey (AK); Mark Fowler (AL); Alan McClain (AR); Ricardo Lara (CA); Michael Conway represented by Debra Judy (CO); Andrew N. Mais represented by Kurt Swan (CT); Trinidad Navarro (DE); Michael Yaworsky represented by Sheryl Parker (FL); Dean L. Cameron represented by Randy Pipal (ID); Ann Gillespie represented by Corbin McGhee (IL); Marie Grant (MD); Angela L. Nelson represented by Jeana Thomas (MO); Mike Chaney represented by Ryan Blakeney (MS); Mike Causey represented by Angela Hatchell (NC); Jon Godfread represented by John Arnold (ND); Justin Zimmerman (NJ); Scott Kipper represented by Alexia Emmermann (NV); Adrienne A. Harris represented by Sumit Sud (NY); Judith L. French represented by Jana K. Jarrett (OH); Glen Mulready represented by Donna Dorr (OK); Andrew R. Stolfi (OR); Michael Humphreys (PA); Cassie Brown represented by Randall Evans (TX); Jon Pike (UT); Scott A. White represented by Zuhairah Tillinghast (VA); Nathan Houdek representing Sarah Smith (WI); and Allan L. McVey represented by Joylynn Fix (WV). Also participating were Heather Culpepper and Lori Plant (AR); Lori Dreaver Munn (AZ); Lucy Jabourian (CA); Susan R. Jennette and Jessica Luff (DE); Charles Whitehead (NC); and Julie Blauvelt (VA).

1. Heard a Summary of the NAIC/Consumer Participation Board of Trustees Meeting

Commissioner Arnold said the board met March 23, 2025. During this meeting, the board took the following action: 1) received an update from Lois Alexander (NAIC) on changes to the 2025 Consumer Representative Online Application that will be made prior to the application period for 2026; 2) discussed the governance, structure, and operations of the Consumer Participation Program and assigned a work group to draft minor changes to the plan of operation for discussion at the Summer National Meeting; and 3) discussed recruiting strategies to attract applicants specializing in property/casualty (P/C) insurance. Commissioner Arnold asked liaison committee members and consumer representatives for their assistance in pursuing such applicants, especially those with homeowners' insurance and senior issues advocacy experience.

2. Heard a Presentation from The AIDS Institute, Arthritis Foundation, and NHeLP on How Federal Actions Will Impact State Regulation of the Health Insurance Market

Stephanie Hengst (The AIDS Institute), Anna Hyde (Arthritis Foundation), and Wayne Turner (NHeLP) presented updates on federal actions affecting the health insurance marketplace, including enhanced premium tax credits, proposed cuts to Medicaid, and preventive services updates. Hengst discussed the potential impact of the *Braidwood vs. Kennedy* federal court case on preventive services and the importance of enforcing the no-cost preventive services requirement at the state level by ensuring information is clearly provided to consumers. She said the Supreme Court will hear the case, which challenges the Affordable Care Act (ACA) provision that requires most private insurance to cover U.S. Preventative Services Task Force (USPSTF)-recommended preventive services without cost-sharing. Hengst said potential implications include state employees losing preventive services and no-cost coverage, long-term rise in premiums, increased out-of-pocket costs, deferred care, and surges in preventable diseases and subsequent health costs.

More than 150 million non-elderly Americans could be impacted if no-cost preventative services are struck down by the court. She said that no-cost preventive services are in place now and must be enforced. *Braidwood vs. Kennedy* will be heard on April 21, with a ruling in the summer. Hundreds of patient and provider groups have filed amicus briefs. Hengst said the impact would be out-of-pocket costs deterring consumers from seeking services such as screenings for cancer, mental health, pregnancy, sexual health, weight, and tobacco. She said

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care could be deferred or delayed, which could result in worsening long-term health outcomes as well as increases in preventable disease and health disparities.

Hengst said the consumer representatives' report indicated that preventative services coverage and no-cost protections are inconsistently and inequitably implemented. She said there are gaps in the plan material descriptions, a lack of guidance to providers on coding preventative versus diagnostic, and confusion around how formularies list preventative medications (especially PrEP preventative medications) as covered without cost-sharing, using notations that are difficult to follow. Hengst suggested that state insurance regulators: 1) enforce no-cost preventive services requirements; 2) ensure consumers have clear information upfront about their coverage by putting the preventive services list online where it is easily available during the open enrollment shopping period; 3) update state insurance and marketplace websites to include information about no-cost preventive services; 4) confirm preventive services coverage through data calls, rate review, and the qualified health plan (QHP) certification process; 5) work with state legislature to enshrine protections in state law as these 15 states did: California, Colorado, Connecticut, the District of Columbia, Delaware, Maine, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, Vermont, Virginia, and Washington; and 6) publish consumer-facing reports identifying health plans that have weak preventive services coverage.

Commissioner Conway asked what approach states should take if the USPSTF or other like entities are weakened or dissolved. Hengst said the best option would be to work with state legislatures to codify preventive services into state law and encourage the issuers to continue to provide these services at no cost. Turner said the USPSTF itself makes its deliberations free of political influence, but there is some concern that even if the task force survives, it may be gutted. He said states should try to tie their preventive services to the USPSTF's existing A and B recommendations now and then construct or designate a state entity to provide those updates should USPSTF no longer provide the updates, which is what Colorado is considering. Turner said it is an important model for other states to follow.

Commissioner Lara said California has been trying to incentivize more insureds to use PrEP and to see if health care insurance companies or their carriers would give consumers a policy discount for using PrEP. He said carriers had previously been charging people more if they were on PrEP because it was viewed as risky behavior when it is the opposite. Commissioner Lara asked what Hengst thought about the possibility of requiring health care providers to give premium discounts to insureds who are on PrEP in states that are trying to incentivize healthy behaviors. Hengst said it is a great idea that could potentially reduce costs for the insurers and incentivize people to get the PrEP services that they need because money is a driver for a lot of people.

Hyde discussed the importance of extending enhanced premium tax credits (ePTCs), highlighting the economic impact if Congress does not act by the end of the year. She emphasized the interconnectedness of the health care ecosystem and the potential loss of jobs and tax revenues. Hyde recommended state insurance regulators raise the urgency of extending enhanced premium tax credits with their state congressional delegations by providing granular data on state insurance market impacts. She said subsidized ACA Exchange enrollment doubled between 2020 and 2024, increasing 109% to 19.3 million people in 2024, particularly among low-income populations. Hyde said if ePTCs are allowed to expire, the Congressional Budget Office (CBO) estimates a $21 billion reduction in federal expenditures. She said the Commonwealth Fund estimates a $26.1 billion loss in federal tax credits across individuals and entities in 2026 alone. Hyde said estimates include a $34.1 billion reduction in gross domestic product (GDP), $57 billion in reduced economic output, 286,000 job losses nationwide, and $2.1 billion in lost state and local tax revenues. She said the CBO estimates that 5.6 million people will lose access to subsidized coverage in the year following the expiration, contributing to a rise in the uninsured rate.

Hyde said according to healthcare.gov, every marketplace will be impacted with higher costs as premiums are expected to double in at least 12 states. She said the NAIC sent a letter to Congress a few months ago urging an extension and dozens of stakeholders have publicly urged Congress to include this extension in funding bills. Hyde

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said because the 2026 rate review is underway in many states, she suggested that state insurance regulators: 1) raise the urgency of this issue with their Congressional delegations; 2) share granular data about their Exchange markets and the projected impact of letting ePTCs expire; 3) develop fact sheets with actuarially-based projections; and 4) prepare consumer information strategies about transitioning to other forms of insurance if ePTCs are not extended.

Turner said the big actions on Capitol Hill are: 1) the Senate proposals for a $1 billion cut and, from the House Budget Resolution, an $880 billion cut in federal funding for state Medicaid programs, which would affect block grants, per capita caps, 2) the Federal Medical Assistance Percentage (FMAP), work requirements, and 3) state financing restrictions. He explained the potential impact of proposed cuts to Medicaid, including the shift of billions of dollars of cuts onto states, loss of coverage for vulnerable populations, and destabilization of private insurance markets. Turner said billions of dollars of health care costs would be shifted onto states, and millions would be expected to lose health care coverage, including children with complex medical conditions, family caregivers, and those with disabilities and chronic conditions. He said the huge influx of uninsured would destabilize state insurance markets, premium increases would result in instability and uncertainty, damage to state credit ratings, cuts in local revenue for school districts and sheriff departments, increases in uncompensated care and medical debt, and closures of rural hospitals, causing reductions in the health care workforce. Turner urged insurance commissioners to meet with congressional delegations, governors, and state legislators to discuss the potential impacts of proposed Medicaid cuts on state health care infrastructure and to be prepared to provide consumer assistance to people who lose coverage. Turner said there are reconciliation bills pending in both the House and Senate. He said over 30 patient groups have sent letters to Congress urging them to protect Medicaid from funding cuts in reconciliation and to follow up on the progress of those letters. Turner said comments highlighting the potential harms to consumers on the proposed U.S. Centers for Medicare and Medicaid Services (CMS) rule regarding marketplace coverage are required to be filed by April 11, 2025.

Commissioner Lara said Californians are offered Medicare or expanded Medicaid regardless of their immigration status. Now that budgets are tightening and immigrants are being scapegoated, he asked Turner if any national studies had been done that compare the benefits of providing undocumented people with full-scope coverage to those receiving coverage in emergency rooms, which cost states more money. Commissioner Lara said he is working to protect these budget allocations by quantifying the savings of covering someone versus letting them go uninsured and ending up in emergency rooms for limited care at a much higher cost. He said collaborating with researchers or universities that had already done such studies specifically pinpointing California's costs would be his preference. Turner said it was a great idea and that he would research the issue but felt that the states that have refused to expand the Medicaid program offer the best case-in-point study. He said millions of low-income people are going without the health care they need because they do not make enough to qualify for marketplace coverage. Turner said it is the people living in the coverage gap who have terrible health outcomes and are not able to keep jobs because they do not have a source of health care other than a free clinic or emergency services.

3. Heard a Presentation from USofCare, LLS, and HCFA on the Impact of Health System Consolidation on Affordability and Access for Consumers

Caitlin Westerson (United States of Care—USofCare), Lucy Culp (The Leukemia & Lymphoma Society—LLS), and Ashley Blackburn (Health Care for All—HCFA) discussed the impact of health system consolidation on consumer affordability and accessibility. Westerson said health care affordability is a top concern for people. She said USofCare's research shows that 51% of voters identified affordability as their top concern when they think about the health care system, and a Gallup poll from 2022 shows that almost four in 10 Americans reported they or a family member delayed medical treatment due to cost. In 2024, the poll noted that 48% of insured adults said they worry about affording their monthly health insurance premiums. Westerson said that when people identify affordability as an issue with their health care, they are often talking about their interaction with their insurance coverage, that their premiums or deductibles are too high, and that they are feeling the pressure of increasing

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costs for services that they are paying for out of pocket. She said hospital and physician services make up about half of the cost of health care and that the consolidation of these services and facilities is a key factor leading to higher premiums, higher deductibles, and higher out-of-pocket costs for consumers.

Westerson said consolidation is driven by the desire for market power so proponents of consolidation will often claim efficiencies and greater coordination of patient care, but there is a growing body of evidence that suggests consolidation increases prices and harms consumers without yielding any meaningful benefits for patients. Consolidation raises provider prices through the capture of market power, so as providers consolidate, they amass more power over the local market, which puts providers in a better bargaining position to negotiate higher reimbursement rates with carriers who are often forced to accept those higher reimbursement rates, especially in heavily consolidated areas, because they would fail to meet network adequacy requirements otherwise. This cycle increases market concentration, leads to anti-competitive behavior, increases prices, and weakens smaller, independent providers who then run to the larger systems to survive. Westerson said most markets today are highly concentrated, with the system being dominated by a handful of mega health care systems, so the negative impacts of consolidation are increasing. She said federal antitrust enforcement is blind to a lot of these transactions because they are often too small in dollar value to be reported under federal thresholds, which in 2025 is $125 million. As a result, she said more providers are becoming affiliated with large health care systems, particularly in certain physician specialties like oncology or cardiology.

Culp said consolidation leads to rising prices and less choice for consumers. She said it reduces access to care, as hospitals typically eliminate services and see fewer low-income patients after being acquired. It increases prices and costs as consolidation reduces marketplace competition and increases spending while driving up out-of-pocket costs for consumers and increasing premiums, and evidence shows it provides no clear improvement in quality with some studies indicating lower quality outcomes, despite provider claims to the contrary. First, consolidation leads to a reduction in access to care, particularly in rural areas. Two studies that examined the impact of rural hospitals joining larger health systems found that post-merger, rural hospitals were more likely to eliminate or reduce the availability of certain service lines, in particular primary care. There was also a reduction in utilization of inpatient mental health services, among other things, and she said it is important to note that vulnerable populations were more likely to feel the impact of consolidation. The shuttering of independent and community hospitals has disproportionately reduced access to services for residents of rural areas and for those in high-density urban neighborhoods.

Culp said the research uniformly showed that hospital mergers lead to higher prices. She said a study commissioned by the Indiana Legislative Services Agency found that prices at the 22 Indiana hospitals that had participated in merger activity were 13% higher than the 18 hospitals that had not. Another study indicated that communities with the highest level of hospital market consolidation were found to have annual marketplace premiums that were 5% higher. She said consumers are facing increased facility fees as doctor's offices and clinics become outpatient hospital settings and higher out-of-pocket costs as employers opt for less generous or high-deductible plans to control premium costs. She said that, unfortunately, what the research does not show is a correlating increase in quality. It cannot be said that prices are going up, and care is getting better.

There are many studies showing a reduction in quality, lower patient satisfaction, and an increased readmission rate. In one study that LLS commissioned with Wakely, researchers looked at the impact of site-neutral policies that are being considered in Medicare, essentially that payers could pay the same price for the same services that can and are performed safely and effectively in an outpatient setting. She said LLS highlighted the reduction in access to care, higher prices, and the lack of any correlating increase in quality with examples from Massachusetts. Then, LLS suggested state insurance regulators intervene to address consolidation by implementing policies that would prevent harmful consolidation, promote competition, and limit prices to improve affordability. Culp said site-neutral reforms could result in significant out-of-pocket savings for patients. She said a multiple sclerosis patient could save $170 a year, a chronic obstructive pulmonary disease patient could save $218 a year, and a

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multiple myeloma patient with blood cancer could save $665 a year. A similar study conducted by the Health Care Cost Institute (HCCI) found that facility fees charged at outpatient settings that used to be in clinics or doctor's offices were increasing costs by around $70 for an office visit or as much as $650 for a biopsy.

Blackburn said the recent collapse of the Stewart Health Care system, once the largest for-profit hospital chain in the United States, is an example of the impact of provider consolidation on consumers. She said Stewart entered the Massachusetts market in the late 2000s after acquiring Caritas Christi Health Care, the second largest health care system in New England, serving over one million patients each year. Blackburn said joining the two systems was seen as a last resort to keep them from closing, as both were facing financial struggles, outdated infrastructure, and pressure from an increasingly consolidated market with better-funded systems. Stewart promised financial investment and operational stability. Instead, Stewart's executives took financial risks that it could not survive by expanding aggressively and acquiring hospitals outside of Massachusetts to finance this growth. Stewart sold the hospitals' properties and entered into sale-leaseback agreements, burdening it with high rental costs. Blackburn said Stewart cut corners that impacted care delivery and patient volume, which led to Stewart filing for bankruptcy in 2024.

The Massachusetts state government implemented a series of financial interventions to stabilize hospital operations in five of the hospitals that Stewart operated to help facilitate ownership transfer; however, operations at Carney Hospital in Dorchester and Neshoba Valley Medical Center in Ayer shut down after no qualified bids were received during the bankruptcy proceedings. Recognizing that there would be a profound impact on patients, especially the communities with hospitals closing, the Massachusetts Department of Public Health and the Boston Public Health Commission partnered with the Health Care Financing Administration (HCFA), local community, and faith-based organizations to help those communities transition and advocate for their needs based on their unique locations, patient population, and other factors. She said the top concerns were access to an emergency room, access to primary care, and the economic impact of the closures.

Canvassers spent six months talking to patients and helping them navigate the effects of the closures. One of the patients who canvassers talked to said his renters worked for Carney Hospital and lost their jobs when it closed, so they were unable to pay their rent. One patient credited the Neshoba Valley emergency room with saving his son's life during anaphylactic shock and said without Neshoba, he does not know if he would have the same result today because the next closest emergency room is over 15 miles away. Another patient revealed that after being shot, they had been taken to Carney Hospital to be stabilized before going to Boston Medical Center 10 miles north. They believed that stopping at Carney Hospital first saved their life because of how much blood they were losing. Ten miles might not seem like a lot, but trying to travel 10 miles in Boston's rush hour will feel more like 30 miles during an emergency. She said these communities are a small sample of those who are just now learning how to navigate this journey after these systems shut down. These shutdowns will have a long-lasting impact not only on these communities but also on the broader health care market in Massachusetts for years to come.

Westerson said state policymakers have three buckets of tools to address consolidation and rising prices: 1) prevent harmful consolidations from happening in the first place by establishing greater authority to review and approve proposed health care transactions by state-regulated entities; 2) promote healthy competition by supplementing federal antitrust laws to establish more visibility into ownership transparency and eliminate non-compete contract terms between providers and carriers; and 3) limit prices to improve affordability and decrease the incentive to consolidate by establishing limitations on where and when facility fees may be charged.

Commissioner Humphreys said Pennsylvania has integrated delivery systems where insurance companies and hospital systems own one another, regardless of which one is larger. He said they review competitive conditions even when the hospital system is the larger, more dominant player in the group, like Geisinger Health System, which owns a couple of smaller insurance companies. Because of this, the state was able to review the change in ownership of the insurance company when Kaiser Permanente purchased Geisinger and put competitive

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provisions into the contract prior to approving it to ensure the market continued to be as competitive after the sale as it was before. He said this also was the case during a disagreement between the University of Pittsburgh Medical Center (UPMC) and Highmark Insurance, its dominant Western Pennsylvania health system and carrier. Commissioner Humphreys said Pennsylvania has a high mark order he is willing to share that was updated last year by working with Compass Lexecon to look at the competitiveness of the Western Pennsylvania marketplace. The study found that the insurance market had become more competitive, and that the health care market remained at least as competitive, due to local conditions. When two dominant systems exist, they tend to either collude or compete, and in their case, they are incredibly competitive with one another. Commissioner Humphreys said he really appreciated the commentary on the role of the insurance commissioner as being part of the broader holding company system, as some may have insurers that are part of a similar system.

4. Heard a Presentation from CFA on Homeowners Insurance Premiums and Their Impact on American Homeowners

Michael DeLong (Consumer Federation of America—CFA) presented a preview of a research report that he and colleagues Sharon Cornelissen, PhD, Douglas Heller, and Ethan Weilandon at CFA wrote on the rising cost of homeowners insurance premiums from 2021 to 2024. He said the research report will be released in April and is entitled, "Overburdened: The Dramatic Increase in Homeowners Insurance Premiums and Its Impacts on American Homeowners." DeLong said the report highlights the significant increases in premiums across the country, the impact on consumers, and policy recommendations to address the issue, such as improving data collection by conducting annual data calls and making the 2024 NAIC data call public. The research also supports the need for ongoing and regular data collection by the NAIC.

DeLong said the following questions led the research: 1) How much more are homeowners paying for their homeowners insurance premiums in 2024 compared to 2021? 2) How do insurance premium increases vary across the U.S.? 3) In what regions, states, and cities have homeowners faced the most severe hikes? He said that many media outlets, including the *Wall Street Journal* and *The New York Times*, have done their own analysis and that the Federal Insurance Office (FIO) recently used the NAIC's data call for valuable information about homeowners' insurance premiums up through 2022 in its report. However, DeLong said they felt it was important to examine the last few years to get a good picture of the current crisis, which has escalated significantly since 2022. To look at rate changes in the market, he said they used data from Quadrant Information Services, which provides updated rates and algorithms to many property casualty insurance companies. DeLong said this data consisted of test quotes for December 2021 and August 2024 from six of the largest insurance companies in each state for homeowners' insurance premiums for every ZIP code in the United States, except Wyoming. He said the quotes were based on a mid-tier FICO consumer credit score of 740 and a $350,000 replacement value for most of the analysis. To identify state and local averages, DeLong said they also used company premiums weighted by the market share and the number of homeowners in each ZIP code. He said they also supplemented the quadrant data with data from other sources, including the number of homeowners in each ZIP code from the 2020 census.

DeLong said the key findings were that premiums went up in 95% of the ZIP codes. From 2021 to 2024, the average homeowners' insurance premium increased by $648, a 24% increase or almost double the 13% increase in inflation over the same time. He said some states saw exceptionally large increases, with a 59% increase in Utah, 50% in Illinois, 48% in Arizona, and 44% in Pennsylvania. Florida was the most expensive, with an average premium of $9,462 annually for the test consumer. DeLong said Americans paid an estimated $21 billion more for standard homeowners insurance coverage in 2024 compared with 2021. He said the only states that saw premium decreases were Mississippi and West Virginia; however, in both states, some companies raised rates while others lowered rates.

DeLong said one of the biggest takeaways was that while states exposed to hurricanes and wildfires get the most attention in the news, inland states impacted by other weather events like severe thunderstorms, hailstorms,

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tornadoes, and severe freezes have seen some of the biggest premium increases. This is an especially big problem for states with lower incomes.

DeLong said the research also considered that it costs more to rebuild homes in states with higher living costs, like California and Virginia, so homeowners there usually buy insurance coverage for higher replacement values. He said in states with lower costs of living, like Kentucky and Arkansas, homeowners tend to buy coverage with lower coverage limits, so they adjusted the findings for state-level differences in the replacement value. DeLong said they compared premiums for an insurance policy with $250,000 in replacement value to those with $350,000 or $450,000, respectively, depending on the coverage in each state, and Arizona, Illinois, Pennsylvania, and Utah remain the states with the largest percentage increases in premiums. He said there were variations, as Louisiana and North Dakota had a larger rise in premiums under this analysis, but the overall data stands. Zooming in to the city level, DeLong said Salt Lake City saw a 62% increase in premiums, and New Orleans saw a 58% increase in premiums, which lines up with the results for Utah and Louisiana.

He said homeowners in rural areas are equally hard hit by rising costs, with an overall 25% increase from 2021 to 2024. Sixty-eight percent of ZIP codes saw premium increases over 15%, and 32% of ZIP codes saw premium increases over 30%. DeLong said rising costs are also placing additional burdens on would-be homebuyers, as homeowners' insurance premiums are significantly outpacing inflation. Policy recommendations include: 1) improve data collection by holding annual data calls; 2) make the NAIC's 2024 data call public; 3) adopt a Home Mortgage Disclosure Act (HMDA)-style approach to data collection; 4) increase public funding and enshrine premium discounts for risk mitigation efforts; 5) strengthen regulatory oversight of rates and underwriting practices; 6) create a national public reinsurance facility; 7) fund the creation of public catastrophe models; 8) improve coverage offerings and pricing of state-level public insurance alternatives; 9) hold stakeholder conversations about land use policy, building safety, and climate resilience; and 10) hold insurers accountable for investing and underwriting fossil fuel projects.

Commissioner Lara asked DeLong if the study had looked at how the banks or other lenders are being impacted by providing loans for homes in locations where they should not be built. DeLong said this study was the first in a series and that future reports would address this question with help from states. Commissioner Lara said he would like to see a study on the domino effect of not having affordable homeowners' coverage and its impact on the sale, viability, and cost of the home. A home that cannot be sold due to the cost or lack of homeowners insurance leads to the loss of real estate or property taxes that the local community needs to pay firefighters to protect that community. Commissioner Lara said he has seen it start to happen in California and said it would be interesting to see further research on how that would further impact the accessibility and affordability of coverage in certain communities.

Commissioner Stolfi said he looks forward to seeing this report and digging into the numbers, but he said one could certainly argue that there is no difference between homeowners' coverage being unaffordable versus not being offered or not meeting the underwriting criteria. As a policymaker, he said he is very keyed into the availability of homeowners insurance coverage and is curious if the study looked at that side of the equation as well—whether that is looking at uninsured rates and how those have moved over the years or just looking at how costs have gone up, how enrollment in Fair Access to Insurance Requirements (FAIR) plans have gone up, or how enrollment in the non-standard market may have changed. DeLong said CFA did a report last year called, "Who lacks homeowners' insurance," and it hopes to conduct reports more regularly, as well as conduct an in-depth dive on the residual markets, but he said CFA has only four people while insurance regulators have a lot more staff and expertise, so he hopes that states can work with CFA on future reports.

Commissioner Navarro said he really appreciated the report and asked if it could be sent to him and when it would be complete. He said he was happy with where his state came out, but thought consumers in his state would say that premiums are higher than the data shows. He hopes CFA's numbers are accurate, but he believes premiums

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are higher. He asked DeLong if the inflation rate between 2021 and 2024 was 13%. DeLong said that is correct, and the report is being released on April 1, 2025, and that he will share it, along with other data, with all states.

5. Heard a Presentation from UP on Key Takeaways from Los Angeles Insurance Challenges

Amy Bach (United Policyholders—UP) and Kenneth S. Klein (Individual Consumer Advocate) discussed insurance problems in Los Angeles following the recent wildfires. Klein said maps of Los Angeles (LA) before and after the wildfires show most homes were destroyed or had little to no damage. Bach called out the California Department of Insurance (DOI) as a model of how they responded to the LA wildfires. She said UP has had tables set up at the disaster recovery centers (DRCs), but the DOI was on duty there for many more hours than UP. Bach said they are reviewing policies, have had workshops, and have been out there with a dispute resolution mediation program that holds some promise on smoke damage claims.

To compliment Klein's important work on underinsurance, she said underinsurance has been a phenomenon that her organization has been grappling with since UP started as an organization in 1991. She said it is still a fundamental problem. Bach said what they are looking at right now in the aftermath of the LA fires are the usual things like adjuster communication problems, disputes over underinsurance being tied to software that does not have realistic local pricing in it for setting limits on the point of sale, and the settlement offers from the adjusters. UP suggests potential solutions to address underinsurance and improve the insurance process such as collaborating with data scientists to triangulate public data to identify underinsured or uninsured individuals for targeted assistance.

Bach said one concern is tariffs, which are driving up the costs of construction materials and worsening the problem. She said huge progress has been made with the California DOI bringing resources to address disputes before they escalate into litigation. However, Bach said that this is a difficult dynamic, as many people struggle to afford insurance in the first place. She expressed interest in the idea of the insurance industry returning to a value-based policy model, where consumers would know exactly what coverage they have up front, but she believes the industry is a long way from that happening.

Klein said the LA fire started on Jan. 7, and on Jan. 9, he received a data dump from Mike Peterson (CA) and Luciano Gobbo (CA) that described four years of 62,000 fire claims across the state, and he thanked them for that information. The data describes a sophisticated, concerned, informed group of insurance professionals that want full insurance coverage, are willing to pay for full insurance coverage, and think they have full insurance coverage, but more than two-thirds of them do not have full insurance coverage, and they are short of full coverage by a lot. Klein said this data should be horrifying, as consumers are not underinsured because they have chosen to be underinsured, are price sensitive, or cannot afford it. He said over 90% of consumers in the data had replacement cash value (RCV) coverage plus an extended replacement coverage (ERC) endorsement of 20% or more, demonstrating that want to be fully insured. Klein said it is not theoretical economics on price elasticity, moral hazard, or adverse selection. Ninety percent of consumers want to be fully insured, and they think they are fully insured and are willing to pay for it.

Klein said the issue is not because of a catastrophe or demand surge. The bottom line is that a policy's coverage A limit is set to account for potential demand surges and is priced accordingly. Additionally, nine out of 10 policies include a 20% or more extension of coverage A, and demand surge typically runs about 20%, so policyholders should be covered. However, in events like the Marshall fire, the LA fire, Florida hurricanes, and Midwest tornadoes, large numbers of people remain underinsured.

Klein said that the problem is not the catastrophe but the pricing estimates used by insurance agents, which are based on data from a claims-adjusting environment. These estimates often fall short of actual losses reported by insurance companies after the event, with the estimates being below the actual incurred loss 95% of the time, on

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average by 50%. This discrepancy occurs because the cost-containment tools used in claims adjusting, which rely on expertise, details, and negotiations, have been shifted to a point-of-sale setting where such resources are absent, resulting in artificially low pricing.

Klein said the underinsurance statistics are understated. A study by Federal Reserve Bank economists indicates that homeowners are underpaid by their insurers 40% of the time, which means the true extent of underinsurance is masked and suppressed. He said most homeowners' policies contain language stating that the reconstruction amount is an estimate, and if the coverage seems inadequate, the homeowner should contact the insurer. However, based on that language, insurers often win because homeowners are presumed to have read and understood their policies, despite research done by Brenda Cude and others showing that this is not the case. He said that this issue is likely to result in costly and unsatisfactory litigation, particularly in places like LA.

Klein suggested that states wanting to avoid the same issues seen in LA should make their data public-facing and allow the market to respond. This would lead to lawsuits gaining traction, premiums increasing, and market behaviors changing. He said another way would be to follow Colorado's lead by passing a law requiring homeowners' policies to 1) be RCV policies, 2) offer a 50% ERC endorsement, 3) prominently disclose this option, and 4) clearly explain why homeowners should consider it. Klein said if his data is accurate, this would solve many problems.

He said a third way would be a combination of the first two methods. Klein emphasized the need to break the cycle of underinsurance, followed by litigation, followed by ineffective reform, which leads to more underinsurance and litigation. He said he would share the draft of his study and solution publicly when asked. Klein said Federal Reserve economists have recently published a paper, recognizing that when homes are underinsured, they are less likely to be rebuilt and more likely to have their loans paid off. This situation would be detrimental to the banking system, so the Federal Reserve is closely examining how to ensure insurance adequacy to protect their profit stream from interest.

Commissioner Lara said an ongoing effort by California is to assemble a group of data scientists to help California analyze public data and strategically allocate funds to individuals who are underinsured or uninsured. He asked if there was a way for California to use public data to identify these individuals effectively. He said the DOI can determine who is insured, but it currently lacks insight into who is underinsured or entirely uninsured. The goal is to ensure that the resources raised are directed toward those who need it most, helping them rebuild or make difficult financial decisions. Klein said this issue is solvable and that the necessary data can be modeled and made accessible.

6. Heard a Presentation from LILAC and a Consumer Advocate on Consumers Needing Help Finding Insurance Advisors

Richard M. Weber (Life Insurance Consumer Advocacy Center—LICAC) and Harry Ting (Individual Health Care Consumer Advocate) emphasized the importance of helping consumers find insurance advisors. Weber noted the connection between the last three presentations, emphasizing the challenges policyholders have faced around the country over the past year. He mentioned the significant losses in Florida, Kentucky, and North Carolina from hurricanes, tornadoes, and flooding, as well as the recent fires in Los Angeles, with the *LA Times* estimating losses between $250 and $275 billion. Many fire victims and those affected by last year's hurricanes are having significant issues with claims and adjusters. Across locations such as Altadena, Florida, Kentucky, or North Carolina, Weber suggested it is likely that homeowners facing claim issues or lacking coverage did not have a relationship with a P/C broker to give them assistance and advice.

Weber also addressed ongoing issues in the health insurance market, including consumers having their marketplace or Medicare plan switched without their consent or knowledge, and unethical producers misleading

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consumers into purchasing shared health care ministry or short-term limited duration plans. Additionally, he highlighted the widespread problem of long-term care premium increases, where a licensed producer can provide invaluable advice to consumers on how to manage their coverage with those increases. Weber stressed the need for a consumer champion in various insurance sectors, particularly handling homeowners claims after climate disasters, negotiating contested automobile claims, navigating unaffordable long-term premium increases, and understanding complex life insurance policies. Consumers need help finding advisors, such as agents, brokers, producers, navigators, assistants, or State Health Insurance Assistance Program (SHIP) counselors, who can educate consumers about policy options, help them find the best fit, assist with applications and underwriting, and especially help with claims and advocate for them in claim disputes, especially among millennials. Studies show more consumers are looking to the web for answers and even to buy insurance products completely online, forgoing agents and brokers altogether.

Reflecting on his 58 years as a licensed life and health insurance producer, Weber reaffirmed the vital role ethical and knowledgeable insurance advisors play in helping consumers achieve favorable outcomes in property, health, and life insurance matters.

Weber said the Financial Industry Regulatory Authority (FINRA) oversees broker-dealers and their securities brokers and investment advisors. He said they proposed the creation of a national NAIC portal to help consumers find advisors, which would include information on recent serious disciplinary actions involving navigators and SHIP counselors. Weber said FINRA provides its brokercheck.finra.org resource to help consumers locate and potentially connect with licensed individuals and firms. The information available includes license categories, employment history, industry exam qualifications, product exam qualifications, and regulatory actions. Users can search by name or location, with results displaying three key panels: 1) the licensee's name, central registration depository (CRD) number, and licensure categories (securities and/or registered investment advisor); 2) a summary report of broker qualifications, licenses held, and prior affiliations; and 3) disclosure events, including customer complaints, arbitrations, regulatory actions, employment terminations, bankruptcy filings, and criminal or civil judicial proceedings. Weber emphasized that all individuals registered to sell securities or provide investment advice must disclose these events, reinforcing the importance of transparency in the industry.

Ting said like Broker Check, a national website is needed to help consumers choose insurance advisors. He said such a website should allow consumers to search for producers by location and name. Because consumers often do not know the names of producers, submitting a search is not possible on many state websites. He said it should also include information on appointments, qualifications, and experience of producers. It should also use consumer-friendly terminology, avoiding terms that most consumers do not understand, such as producer, resident and non-resident agent, P/C, and fixed and variable life annuities. He said a national website should prominently provide information on SHIP counselors who would help with Medicare products as well as navigators and assisters to help with marketplace plans.

Ting said in his state, and most others, SHIP counselors are a best-kept secret, and there is no way for consumers to find out what producers are certified to sell Medicare products in their state. Finally, he said a national website should include cross-state information on serious producer disciplinary actions. Ting said all advice on choosing a producer, including the advice on any website, says to check for a producer's past misconduct before selecting an agent or a broker. He said, unfortunately, that is difficult in many states, as state websites only show the actions that have been taken within that state. Ting said the NAIC is clearly the organization that should create a national website, as it has the most comprehensive information on insurance producers at the national level, and that information includes data on disciplinary actions taken across all states.

Ting said using the Regulatory Information Retrieval System (RIRS) codes, the NAIC can decide what disciplinary actions are serious enough to disclose, and alternatively, it might specify where it has no record of certain types of disciplinary actions for individual producers. He said the NAIC is a logical sponsor of such a site because it is also

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a key player in the fight against insurance fraud. Finally, Ting said the NAIC also provides guidance on this subject on its website, and educating consumers is critical to making this website useful.

Ting said they are asking the NAIC to 1) provide a portal to help consumers find advisors for individual insurance policies; 2) include information on navigators and assisters and SHIP counselors; 3) incorporate advice on interview questions and advisor selection; and 4) include information on recent serious disciplinary actions. Ting said it would be up to the NAIC to decide which disciplinary actions to include. As a SHIP counselor, he said he sees consumers every week who do not understand their insurance options, and written documents are not helpful. In these cases, having an ethical, knowledgeable advisor is indispensable. He said if anyone is interested in helping consumers find policies that best meet their needs and protect them from unethical producers, then they should support the creation of a national NAIC portal to help consumers find advisors. Ting said taking this action is an excellent way to help and protect consumers at the national level without having to resort to federal government intervention.

Having no further business, the NAIC/Consumer Liaison Committee adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Consumer Cmte/Consumer_2025 Spring/Consumer Liaison Cmte_2025 SpNM Minutes

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NAIC/American Indian and Alaska Native Liaison Committee
Virtual Meeting
February 25, 2025

The NAIC/American Indian and Alaska Native Liaison Committee met Feb. 25, 2025. The following Liaison Committee members participated: Jeff Rude, Chair (WY); Glen Mulready, Vice Chair (OK); Lori K. Wing-Heier represented by Heather Carpenter (AK); Peter M. Fuimaono represented by Elizabeth Perri (AS); Barbara D. Richardson represented by Fausto Burruel (AZ); Trinidad Navarro represented by Christina Miller (DE); Dean L. Cameron represented by Shannon Hohl (ID); Grace Arnold represented by Jackie Dionne (MN); Mick Campbell represented by Cynthia Amann (MO); James E. Brown represented by Molly Plummer (MT); Mike Causey represented by Angela Hatchell (NC); Jon Godfread represented by John Arnold (ND); Scott Kipper (NV); Andrew R. Stolfi represented by Lisa Emerson (OR); Larry D. Deiter represented by Frank Marnell (SD); Patty Kuderer represented by Larry Robinette (WA); and Nathan Houdek represented by Timothy Cornelius (WI). Also participating were Randy Pipal (ID); Renee Campbell and Parker Fisher (MI); Jo A. LeDuc (MO); Tracy Biehn (NC); Santana Edison (ND); Brian Downs (OK); Bryon Welch (WA).

1. Adopted its 2024 Fall National Meeting Minutes

Robinette made a motion, seconded by Cornelius, to adopt the Liaison Committee's Nov. 18, 2024 (*see NAIC Proceedings – Fall 2024, NAIC/Consumer Liaison Committee)* minutes. The motion passed unanimously.

2. Discussed the Results of the Committee Member Survey and Selected Agenda Topics for 2025

Commissioner Rude said this meeting is intended for regulators to receive presentations, discuss current consumer issues affecting Native Americans, and discuss ways to enhance this Committee's outreach and communication with American Indian and Alaska Native (AIAN) communities. Commissioner Rude said the mission of the Liaison Committee is to provide a forum for ongoing dialogue between NAIC Members and the AIAN communities concerning insurance issues of common interest. Specifically, the Liaison Committee will provide a forum for an exchange of information and views on issues surrounding the availability of insurance for AIAN consumers and tribal interests, an opportunity for AIAN groups to bring insurance consumer protection issues to the attention of NAIC Members, and a dialogue on best practices for dealing with insurance issues unique to sovereign tribal nations.

To prepare for this discussion, Commissioner Rude said Liaison Committee members were asked to suggest topics surrounding their positive experiences, outreach successes, and insights that they would like to discuss during Liaison Committee meetings in 2025. He said potential speakers for presentations might include Liaison Committee members, interested regulators, state tribal liaisons, tribal leaders, federal government agencies, industry, NAIC Consumer Representatives, and other interested parties. He also said these meetings would focus on discussing consumer issues affecting Native Americans, including health care and insurance coverage, with a particular emphasis on improving policy comprehension and addressing network provider shortages.

Commissioner Rude reviewed the summary of the suggested topics document and invited Committee members to comment:

Identify health care and insurance coverage issues that are important to tribal leaders along with how insurance departments can help. Commissioner Rude said this topic comes up from time to time, and a few states weighed in positively for it on the survey.

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Hear from large insurance agencies and other organizations, including AMERIND, the National Congress of American Indians (NCAI), and Indian Country Radio, which work with AIANs. Commissioner Rude said some feedback was received on this topic. Commissioner Mulready said the Committee heard from a large agency during the Fall National Meeting that focuses completely on the tribal space, so Commissioner Rude said it might be best to hold this topic over for another time.

Find an opportunity through tribal communities, public relations, financial literacy, and coordination between the Centers for Medicare and Medicaid Services (CMS) and Indian Health Services (IHS) to improve how AIAN insureds understand their policies. Brenda Cude (University of Georgia) emphasized the need to improve consumer understanding of insurance coverage, noting that unique cultural or situational factors may cause American Indians or Alaskan Natives to misunderstand coverage differently than others. For instance, she asked if there are parallels tribal members might draw from their experience that would create misconceptions about how insurance functions. Cude said she was not prepared to answer the question but thought the question might be worth pursuing with those who have more direct contact with AIANs.

Carpenter said she did not know what tribes are facing in other states, but language barriers, especially when it comes to the fine print in insurance contracts, add to the confusion because Alaska has so many unique native languages. Cude gave an example: In Spanish, a word has a misleading English parallel, leading someone to wrongly attribute legal status. She said that is the kind of issue she had in mind. Commissioner Rude said these are great points and that this topic should be included as an agenda topic for this year's meetings.

Hear a presentation from Nevada on its state-based exchange's work with tribes to support member enrollment and implement consolidated billing. Commissioner Rude said it is still a work in progress and not yet a confirmed success story but it is something the Committee can consider later. Commissioner Mulready said the Committee should also reach out to other states that have a state-based exchange and a substantial tribal population to see what creative ideas they have utilized. There may be other states that can talk about specific steps they have taken to enroll tribal members in their state-based exchanges. He said there are a number of states, including Oklahoma, that are getting ready to establish a state-based exchange and would love to hear those ideas.

Commissioner Rude said there are 12 topics listed, and the goal is to narrow them down to five or six manageable ones. Committee members will then review what their states have on the topics and identify contacts who can assist.

Address shortages of in-network providers in rural tribal areas by improving access through telehealth and coverage gaps by expanding coverage to include culturally relevant care. Carpenter said that Alaska's tribal health system has been a leader in telehealth and has made significant advancements. She expressed confidence that it would be willing to share its expertise and noted that telehealth is essential to Alaska's success. Commissioner Rude agreed, emphasizing the relevance of telehealth to all states, as geographic latitude is not a determining factor, and many states face challenges related to remote areas.

Collaborate and coordinate with IHS, Medicaid, Medicare, and private insurance on how insurers can work with tribal health systems to clarify payment responsibilities, reduce administrative burdens, and improve care coordination to avoid tribal members being sent to collection agencies over medical bills due to the billing process complications. Robinette said this is a big issue in Washington. He said that it is unclear how often a tribal member seeks treatment outside the reservation. While the IHS refers cases due to their inability to provide the necessary care, equipment, or personnel, these services are still billed to the individual, even when processed through IHS, Medicare, Medicaid, or private insurance. The result is an outstanding balance, often reaching hundreds or even thousands of dollars. Robinette noted that for vulnerable populations, particularly those with limited income, this becomes a significant challenge. He suggested that a study be conducted to determine how many Native Americans and non-native individuals in rural communities are affected by this issue, where tribal members must

seek care outside their area and are billed as if they lacked a referral. Robinette emphasized that this situation is harmful, as it can be as dangerous as any health care crisis for these individuals.

Commissioner Rude inquired whether Washington has personnel managing or receiving feedback on this issue, or contacts who might be useful for the Committee to hear from. Robinette acknowledged suggesting the topic but noted that even entities like IHS simply maintain that a referral was made, and the billing process must follow. He described a scenario where a large claim, such as for open-heart surgery, might leave an individual with a significant balance, requiring them to apply to the catastrophic fund, which is often depleted early in the year. Robinette expressed that this issue is similar in some states, where the prescribed process leaves little room for resolution, and negotiation is often the only recourse. While he does not have a solution, he asked if he could gain direction from a person who could address these concerns and help streamline the process, reducing or eliminating these burdens.

Determine what steps can be taken to expand access to mental health and addiction treatment services while ensuring culturally competent care for AIAN communities. Commissioner Rude said that there had been briefings on past abuses and expressed a desire to explore potential success stories. He invited comments or thoughts on the matter.

Commissioner Rude asked **how premiums, co-pays, and financial barriers be reduced for AIAN individuals** and **what outreach strategies can improve awareness of Special Enrollment Periods (SEPs) and other financial assistance options**. Robinette said this issue is similar to item 6 regarding how to enroll individuals into these programs and what grants are available to them. He noted that some area agencies receive supplemental grants, but these are minimal and infrequent. These grants are typically used to support daily health clinics or bring providers into clinics to expand coverage for more people.

Commissioner Rude asked **what policies can support long-term care for AIAN elders**, including in-home and community-based services, and **how sustainable funding can be ensured for aging tribal populations**.

Presentations or speakers to talk about property/casualty (P/C) insurance in tribal communities including any successes or issues. Commissioner Rude said the Committee is willing to contact tribes located in Idaho to see if they have information on this topic that they would like to present. Cornelius said they had encountered this kind of issue while doing tribal consultations, as there are very few agents and brokers as well as very few insurers that will write P/C coverage on tribal land.

Plummer said that about a year ago, some tribal communities partnered with lending groups to address housing shortages, as little to no new housing had been available since a housing initiative in the 1980s. Two Montana reservations sought assistance in navigating insurance-related challenges, including securing funding and determining property ownership. Based on these requests, she recognized that this issue had affected multiple communities.

Dionne said she is the tribal liaison at the Minnesota Department of Commerce, and it had begun visiting tribal communities to assess interest in holding listening sessions on P/C, auto, and homeowners' insurance. The state has conducted one session so far, revealing challenges tribes face in understanding policy details, particularly in flood-prone areas where insurers are unwilling to provide coverage. Even when coverage is available, the rates are often too high for tribes to afford. Dionne noted that the department aims to visit all reservations and compile a summary of the findings. Commissioner Rude encouraged sharing the results with the Committee, emphasizing their potential value and benefit.

Presentations by AIAN leaders to help state regulators learn more about AIAN culture and communication preferences. Commissioner Rude said that similar presentations had been given in the past but emphasized their

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continued value, especially for new members. Plummer recalled that a few years ago, Montana collaborated with several states to examine how cultural differences influence communication effectiveness. She noted that a related document is available on the Committee's webpage for members to review and consider updating. Additionally, Montana developed a state-specific version of its website tailored to its tribes and communities. Commissioner Rude thanked her, noting that he had seen both documents on the NAIC Committee webpage and Montana's website and found them to be valuable resources.

Sharing success stories on positive outreach and education activities between state insurance regulators and AIAN communities. Robinette said he would like to speak to that just mainly as a former tribal insurance person. Robinette said as a normal member of the Colville confederated tribes Robinette said that the Colville Confederated Tribes worked with Conover, an insurance company in Washington, following a devastating fire that destroyed its government center. He compared the loss to a state capital burning down along with its entire infrastructure. The insurance company provided critical support, including nearly half a million dollars in initial funding to reduce the tribe's financial burden. They also assisted in coordinating services, working with utilities, and securing temporary housing. The recovery process lasted two and a half years and resulted in the loss of historical artifacts and essential digital records. Robinette commended the company for its assistance, noting that it had been helpful in other fire- and wind-related incidents. With 30 years of experience in insurance, he acknowledged that some coverage gaps remained, particularly for car theft, certain fire damage, and specialty equipment. However, he emphasized that these shortcomings were minimal compared to the overall support received.

Commissioner Rude expressed appreciation for Robinette's insight and reminded members that presentations could come from a variety of sources, including Committee members, regulators, state tribal liaisons, tribal leaders, federal agencies, industry representatives, and consumer advocates. He encouraged broad participation and emphasized that valuable contributions could come from diverse perspectives rather than specific individuals or organizations.

Based on the Liaison Committee's discussion of each of the suggested topics, Cornelius made a motion, seconded by Arnold, to select the following six agenda topics for presentation and discussion in 2025: 1) health care and insurance coverage; 2) better understanding of insurance policies; 3) success stories from state-based exchanges; 4) addressing network provider shortages; 5) coordinating between HIS and other insurance providers; and 6) affordable coverage and out-of-pocket costs. Property/casualty (P/C) insurance in tribal communities was highlighted as an area of interest for further exploration. The motion passed unanimously.

3. Discussed Other Matters

Commissioner Rude reminded attendees that the Liaison Committee was not meeting during the Spring National Meeting. He asked Lois Alexander (NAIC) to distribute the list of topics selected to Liaison Committee members, interested regulators, and interested parties. Commissioner Rude also asked Liaison Committee members to gather information and resources on these topics. This includes coordinating with Alaska's tribal health systems to share their telehealth experiences, examining outstanding medical balances for off-reservation treatment to identify potential solutions, and compiling successful P/C coverage programs for future presentations. He expressed appreciation for everyone's time and efforts and looks forward to reviewing their findings.

Having no further business, the Liaison Committee adjourned.

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