NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

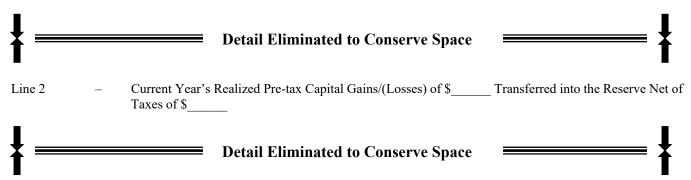
	DATE: 09/06/2022	FOR NAIC USE ONLY
	DATE. 09/06/2022	Agenda Item # 2022-18BWG
CONTACT PERSON:		Year <u>2023</u>
TELEBUIONE		Changes to Existing Reporting [X]
TELEPHONE:		New Reporting Requirement []
EMAIL ADDRESS:		REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT
ON BEHALF OF:		No Impact [X] Modifies Required Disclosure []
NAME:	Patricia Gosselin	DISPOSITION
TITLE:		[] Rejected For Public Comment
AFFILIATION.	Nov. Homoshina Inguranca Danautmant	[] Referred To Another NAIC Group
AFFILIATION:	New Hampshire Insurance Department	[] Received For Public Comment [X] Adopted Date 03/07/2023
ADDRESS:	215 S. Fruit St., Ste. 14	[] Rejected Date
	Company NILL 02201	[] Deferred Date
	Concord, NH 03301	[] Other (Specify)
BLANK(S) TO WHICH PROPOSAL APPLIES		
[X] ANNUAL STATEMENT [] INSTRUCTIONS [] CROSSCHECKS [] QUARTERLY STATEMENT [] BLANK		
[X] Life, Accident & H [] Property/Casualty [] Health		[] Title [] Other
Anticipated Effective Date: Annual 2023		
IDENTIFICATION OF ITEM(S) TO CHANGE		
nstructional corrections on the handling of Exchange Traded Funds (ETFs) and/or Securities Valuation Office (SVO) Identified Funds within the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR).		
REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**		
The classification of Bond Mutual Funds is no longer used in statement reporting, within the Accounting Practices and Procedures Manual of the NAIC's Investment Analysis Office. However, the MR/AVR instructions have not been updated to reflect the new terminology.		
NAIC STAFF COMMENTS		
Comment on Effective Reporting Date:		
Other Comments:		

Revised 7/18/2022

^{**} This section must be completed on all forms.

INTEREST MAINTENANCE RESERVE

This exhibit is designed to capture the realized capital gains/(losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold.



Include realized capital gains/(losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains/(losses) exempt from the IMR.

Bond Mutual Funds—as Identified by the SVO. Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains/(losses) realized by the Company, whether from sale of the Fund-ETF or capital gains distributions by the FundETF. If, during the course of the year, the SVO removes the designation of "NAIC-1" from a Bond Mutual Fund—as Identified by the SVO, the company shall not report capital gains/(losses) in this schedule. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. Any such removal of the "NAIC-1" designation will cause the Fund to be reported as common stock on the applicable schedules.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Detail Eliminated to Conserve Space

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains/(losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and losses on fixed income assets held on Schedule D. A capital gain/(loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain/(loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain/(loss). Thus, the designation, on a purchase

lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or loss.

Realized capital gains/(losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain/(loss) in the AVR.

Realized capital gains/(losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains/(losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For Bond Mutual Fund—as Identified by the SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.



AMORTIZATION

This supporting schedule calculates the amount of the Interest Maintenance Reserve to be amortized in each year.

Column 1 – Reserve as of December 31, Prior Year

Enter the amount from Column 4 of the prior year's schedule.

Column 2 – Current Year's Realized Capital Gains/(Losses) Transferred into the Reserve Net of Taxes



Expected Maturity Date

The presence of sinking fund payments, amortization schedules, expected prepayments, and adjustable interest rates complicate the determination of the number of calendar years to expected maturity. The expected maturity date is:

• For fixed income instruments with fixed contractual repayment dates and amounts (including bonds, preferred stock, callable or convertible bonds and preferred(s), the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or "yield to worst"). Potential retirement dates include all possible call dates, and the contractual maturity date. However, where a convertible bond or convertible preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock's current market price. When the instrument's contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life should be included in the analysis where average life is defined as the date at which the instrument is 50% repaid. For puttable instruments, where the exercise option rests with the investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For Bond Mutual Funds—as Identified by SVO Identified ETFs, use one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the

expected maturity is the weighted-average life of the underlying bonds. For perpetual instruments, the expected maturity is 30 years from the current date.



Detail Eliminated to Conserve Space



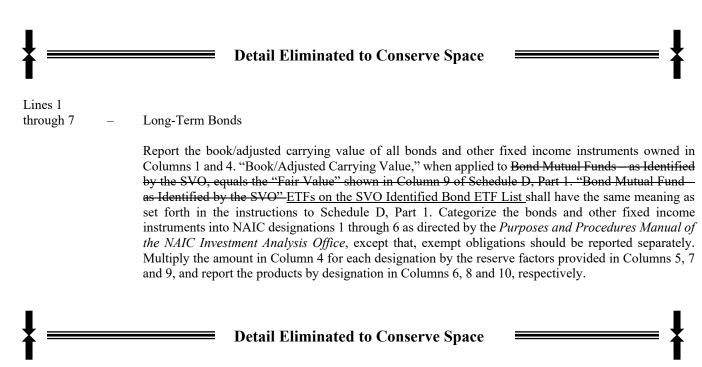
For purposes of the grouped method, the following additional assumptions are applicable:

- For fixed income investments, other than residential mortgages and residential mortgage
 pass-throughs, without a maturity date or sinking fund schedule, a maturity date 30 years from
 the current year should be used.
- For mortgage-backed/asset-backed securities, use the remaining weighted average life of
 principal and interest payments consistent with the prepayment assumptions that would have
 been used to value the security had the security been repurchased at its sale price.
- For Bond Mutual Funds—as Identified by the SVO Identified ETFs, use one calendar year to expected maturity.

ASSET VALUATION RESERVE

<u>DEFAULT COMPONENT –</u> <u>BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS</u>

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve amount for the bond, preferred stock, derivative instruments and mortgage loan sub-components of the default component of the AVR. Instructions apply to the general account and the separate accounts, if applicable.



ASSET VALUATION RESERVE

<u>EQUITY AND OTHER INVESTED ASSET COMPONENT –</u> BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.



Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds (except money market mutual funds appropriately reported on Schedule E, Part 2), unit investment trusts, closed-end funds and ETFs (reported as common stock) in unaffiliated companies in Columns 1 and 4. Exclude money market mutual funds appropriately reported on Schedule E, Part 2. Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.



Line 2 – Unaffiliated Common Stocks – Private

Report the book/adjusted carrying value of all privately held common stocks, including mutual funds, unit investment trusts, closed-end funds and ETFs (reported as common stock) owned in unaffiliated companies in Columns 1 and 4. Multiply Column 4 by the reserve factor provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

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