

Date: 7/25/2023

2023 Summer National Meeting
Seattle, Washington

Statutory Accounting Principles (E) Working Group

Sunday, August 13, 2023
9:30 a.m. – 11:30 a.m. (PT)

OVERVIEW AGENDA

HEARING AGENDA

	<u>Hearing Page Number</u>	<u>Attachment</u>
1. SAPWG Hearing – Adoption of Minutes—Dale Bruggeman (OH)	1	1-6
2. SAPWG Hearing – Review and Adoption of Non-Contested Positions —Dale Bruggeman (OH)		
• Ref #2023-02: SSAP No. 43R – CLO Financial Modeling	2	7
• Ref #2023-05: ASU 2022-06, <i>Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848</i>	2	8, 9
• Ref #2023-07: ASU 2019-08, Codification Improvements to Topic 718 and Topic 606	3	10
• Ref #2023-08: ASU 2019-07, Codification Updates to SEC Sections	3	11
• Ref #2023-09: ASU 2020-09, Codification Updates to SEC Sections	4	12
• Ref #2023-10: ASU 2022-05, Transition for Sold Contracts	4	13
• Ref #2023-13: PIK Interest Disclosure Clarification	5	14
3. SAPWG Hearing – Review of Comments on Exposed Items—Dale Bruggeman (OH)		
• Ref #2019-21: Principles-Based Bond Definition	7	15-20
• Ref #2022-01: Conceptual Framework - Updates	13	21, 22
• Ref #2022-11: Collateral for Loans	13	23
• Ref #2022-12: Review of INT 03-02: Modifications to an Existing Intercompany Pooling Arrangement	16	24, 25
• Ref #2022-14: New Market Tax Credits	19	26-28
• Ref #2022-19: Negative IMR	24	29, 30
• Ref #2023-01: Review Annual Statement Instructions for Accounting Guidance	26	31
• Ref #2023-04: INT 23-03: Corporate Alternative Minimum Tax Guidance	27	32, 33
• Ref #2023-06: Additional Updates on ASU 2021-10, Government Assistance	30	34
• Ref #2023-12: Residuals in SSAP No. 48 Investments	31	35
Comment Letters	33	36

OVERVIEW AGENDA

MEETING AGENDA

	<u>Meeting Page</u>	<u>Attachment</u>
	<u>Number</u>	
4. SAPWG Meeting – Maintenance Agenda – Pending List—<i>Dale Bruggeman (OH)</i>		
• Ref #2023-14: Asset Valuation Reserve and Interest Maintenance Reserve	1	A
• Ref #2023-15: IMR / AVR Specific Allocations	2	B
• Ref #2023-16: Schedule BA Reporting Categories	3	C
• Ref #2023-17: Short-Term Investments	4	D
• Ref #2023-18: ASU 2016-19, Technical Corrections and Improvements	6	E
• Ref #2023-19: ASU 2018-09, Codification Improvements	6	F
• Ref #2023-20: ASU 2020-10, Codification Improvements	7	G
• Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102	7	H
• Ref #INT 23-02: Third Quarter 2023 Inflation Reduction Act – CAMT	7	I
• Ref #2023-22: Actuarial Guideline 51 and Appendix A-010 Interaction	8	J
5. SAPWG Meeting – Any Other Matters Brought Before the Working Group—<i>Dale Bruggeman (OH)</i>		
• Review of U.S. GAAP Exposures	9	K
➤ Comment Deadline for Ref #2023-12 and INT 23-02 – Tuesday, September 12		
➤ Comment Deadline for all other items – Friday, September 29		

Hearing Agenda

**Statutory Accounting Principles (E) Working Group
Hearing Agenda
August 13, 2023**

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

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

Note: This meeting will be recorded for subsequent use.

REVIEW AND ADOPTION OF MINUTES

- 1. Spring National Meeting (Attachment 1)
- 2. April 10, 2023, E-Vote (Attachment 2)
- 3. April 12, 2023, E-Vote (Attachment 3)
- 4. May 16, 2023 (Attachment 4)
- 5. June 28, 2023 (Attachment 5)
- 6. July 5, 2023, E-Vote (Attachment 6)

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

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

- 1. Ref #2023-02: SSAP No. 43R – CLO Financial Modeling
- 2. Ref #2023-05: ASU 2022-06, *Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848*
- 3. Ref #2023-07: ASU 2019-08, Codification Improvements to Topic 718 and Topic 606
- 4. Ref #2023-08: ASU 2019-07, Codification Updates to SEC Sections
- 5. Ref #2023-09: ASU 2020-09, Codification Updates to SEC Sections
- 6. Ref #2023-10: ASU 2022-05, Transition for Sold Contracts
- 7. Ref #2023-13: PIK Interest Disclosure Clarification

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-02 (Julie)	SSAP No. 43R – CLO Financial Modeling	7 – Agenda Item	No Comments	IP-24

Summary:

During the Spring National Meeting, the Working Group exposed SAP clarifications to *SSAP No. 43R—Loan-backed and Structured Securities* to incorporate changes to add CLOs to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 43R—Loan-backed and Structured Securities* to incorporate changes to add CLOs to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities. These revisions reflect the guidance adopted for the P&P Manual in February 2023.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-05 (Jake)	<i>ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848</i>	8 – Agenda Item 9 – INT 20-01	Yes	IP-24

Summary:

FASB issued *ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848* to extend the sunset date of the reference rate reform guidance that was included in *ASU 2020-04, Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and *ASU 2021-01, Reference Rate Reform (Topic 848), Scope*.

As background, reference rate reform refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based.

To address ASU 2020-04 the Working Group issued *INT 20-01: Reference Rate Reform*, and this interpretation was then revised to incorporate guidance from ASU 2021-01. This agenda item intends to again revise INT 20-01 to include the revised sunset date of December 31, 2024.

Interested Parties' Comments:

Interested parties support the extension of the expiration date of INT 20-01 to December 31, 2024.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed temporary (optional) expedient and exception interpretative guidance, to revise the expiration date of the guidance in *INT 20-01: ASU 2020-04 & 2021-01 - Reference Rate Reform* to be December 31, 2024.

Voting note: The proposed modifications to INT 20-01 temporarily override SSAP No. 15, SSAP No. 22R and SSAP No. 86 guidance, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-07 (Wil)	<i>ASU 2019-08, Codification Improvements to Topic 718 and Topic 606</i>	10 – Agenda Item	No Comments	IP-25

Summary:

In November 2019, FASB issued *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 includes amendments to Topics 718 and 606. The changes to Topic 718 include share-based payment transactions for acquiring goods and services from nonemployees and superseded guidance in Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. The changes to Topic 606 expand the scope to include share-based payment awards granted to a customer in conjunction with selling goods or services.

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in *SSAP No. 104R—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.)

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

Staff recommends that the Working Group adopt the exposed revisions to:

- *SSAP No. 104R—Share-Based Payments* to adopt, with modification, *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* for statutory accounting.
- *SSAP No. 95—Nonmonetary Transactions* to update previously adopted U.S. GAAP guidance.
- *SSAP No. 47—Uninsured Plans*, reject Topic 606 guidance in ASU 2019-08.

These revisions add language to include share-based consideration payable to customers under SSAP No. 104R guidance in the same manner as U.S. GAAP. The proposed revisions to SSAP No. 95, SSAP No. 104R, and SSAP No. 47, are illustrated in Form A.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-08 (Wil)	<i>ASU 2019-07, Codification Updates to SEC Sections</i>	11 – Agenda Item	No Comments	IP-26

Summary:

FASB issued *ASU 2019-07—Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates*, which primarily effects the codifications of Financial Services—Depository and Lending (Topic 942), Financial Services—Insurance (Topic 944), and Financial Services—Investment Companies (Topic 946). The update amends and supersedes certain SEC sections in Topic 942, 944, and 946 to align codification guidance with SEC Releases No. 33-10532, 33-10231, and 33-10442. These SEC Releases amend a wide range of disclosure requirements which were determined to be redundant, duplicative, overlapping, outdated, or superseded by other relevant literature. Additionally, the SEC

Releases include several miscellaneous updates and corrections intended to clarify SEC guidance. Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2019-07—Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates* as not applicable to statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-09 (Wil)	<i>ASU 2020-09—Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)</i>	12 – Agenda Item	No Comments	IP-26

Summary:

FASB issued *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)*, which effects the codification in Debt (Topic 470). The update amends and supersedes certain SEC sections in Topic 470 to align codification guidance with SEC Release No. 33-10762. No. 33-10762 amends the SEC financial disclosure requirements for guarantors and issuers of guaranteed securities registered or being registered, and issuers' affiliates whose securities collateralize securities registered or being registered in Regulation S-X to improve those requirements for both investors and registrants. The changes are intended to provide investors with material information given the specific facts and circumstances, make the disclosures easier to understand, and reduce the costs and burdens to registrants. SEC guidance from ASUs have generally been rejected as not applicable for statutory accounting in Appendix D, but all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)* as not applicable to statutory accounting. This guidance is not applicable as it pertains to an exception for issuers or guarantors filing financial statements with the SEC when the issuer or guarantor is included in filed consolidated financial statements and other conditions are met.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-10 (Wil)	<i>ASU 2022-05, Transition for Sold Contracts</i>	13 – Agenda Item	Yes	IP-26

Summary:

This agenda item has been drafted to consider *ASU 2022-05, Transition for Sold Contracts* (ASU) for statutory accounting. The FASB issued the ASU in December 2022 to amend specific sections of *ASU 2018-12, Targeted Improvements for Long-Durations Contracts* (LDTI). The amendments made by the ASU are intended to reduce

implementation costs and complexity associated with the adoption of LDTI for contracts that have been derecognized in accordance with the ASU before the LDTI effective date. The revisions captured in the ASU are summarized as follows:

The amendments in the ASU amend the LDTI transition guidance to allow an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts that meet certain criteria from applying the amendments in the LDTI. To qualify for the accounting policy election, as of the LDTI effective date both of the following conditions must be met:

- a. The insurance contracts must have been derecognized because of a sale or disposal of individual or a group of contracts or legal entities.
- b. The entity has no significant continuing involvement with the derecognized contracts.

Interested Parties' Comments:

Interested parties support the conclusion reached for this guidance.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to reject *ASU 2022-05, Transition for Sold Contracts* as not applicable for statutory accounting in *SSAP No. 50—Classifications of Insurance or Managed Care Contracts*; *SSAP No. 51R—Life Contracts*; *SSAP No. 52—Deposit-Type Contracts*; *SSAP No. 56—Separate Accounts*; *SSAP No. 71—Policy Acquisition Costs and Commissions* and *SSAP No. 86—Derivatives*. The guidance in *ASU 2022-05* provides updated transition guidance for *ASU 2018-12*, which had previously been rejected for statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-13 (Julie)	PIK Interest Disclosure Clarification	14 – Agenda Item	No Comments	IP-40

Summary:

This agenda item has been developed to further clarify, and incorporate a practical expedient, to the paid-in-kind (PIK) interest aggregate disclosure adopted in *SSAP No. 34—Investment Income Due and Accrued* for year-2023. In response to questions received on how paydowns / disposals would impact PIK interest included in the cumulative balance, it was noted that clarifying guidance would assist with consistent application. Furthermore, without clarification it was identified that companies and investment software vendors may interpret the need to detail the retrospective PIK allocations and paydowns / disposals as evidence for the resulting amount.

To eliminate the potential inconsistent application on how paydowns / disposals impact PIK interest included in cumulative principal / par balance, as well as to streamline the calculation, this agenda item proposes the following clarifications:

- Any decreasing amounts to principal balances (paydowns / disposals / sales, etc.,) shall first be applied to any PIK interest included in the principal balance. For example, if original par was \$100, PIK interest received overtime was \$50 and paydowns received were \$30, the resulting PIK included in the cumulative balance would be \$20 - (\$50 less \$30). No reduction to the original principal would occur until the PIK interest had been fully eliminated from the balance. If in this scenario paydowns of \$70 had occurred, the company would report zero in the disclosure for cumulative PIK interest, as the amount received would have fully eliminated the \$50 in PIK interest.
- The determination of PIK interest in cumulative balance can be calculated through a practical expedient calculation of original par / principal value to current par / principal value, not to go less than zero. This

calculation will determine the resulting balance from PIK interest over time as well as paydowns / disposals, etc. The intent of this calculation is to prevent companies and investment software vendors from creating a schedule that details PIK interest and paydowns received retroactively since the origination of the investment. The practical expedient calculation from the original to current par / principal value shall result with the same resulting PIK interest amount included in the cumulative balance without the retroactive scheduling required.

The adopted disclosure in SSAP No. 34 is not intended to change, but the proposed clarification and practical expedient guidance is intended to be captured in the annual statement instructions. This agenda item is being exposed at the SAPWG, as the source of the adopted disclosure, and will be used to subsequently provide a memo to blanks for year-end 2023 application and to revise the formal instructions for 2024.

Interested Parties' Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Working Group adopt this agenda item to clarify and incorporate a practical expedient, to the paid-in-kind (PIK) interest aggregate disclosure for SSAP No. 34 and annual statement instruction purposes.

For annual statement purposes, this instruction will be an editorial change only and can be provided by the Working Group in a memo posted on the Blanks Working (E) Group page if adopted after the deadline to incorporate into the annual statement instructions for 2023.

REVIEW of COMMENTS on EXPOSED ITEMS

The following items received comments during the exposure period that are open for discussion.

1. Ref #2019-21: Principles-Based Bond Definition
2. Ref #2022-01: Conceptual Framework – Updates
3. Ref #2022-11: Collateral for Loans
4. Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement
5. Ref #2022-14: New Market Tax Credits
6. Ref #2022-19: Net Negative (Disallowed) IMR
7. Ref #2023-01: Review Annual Statement Instructions for Accounting Guidance
8. Ref #2023-04: Corporate Alternative Minimum Tax Guidance
9. Ref #2023-06: Additional Updates on ASU 2021-10, Government Assistance
10. Ref #2023-12: Residuals in SSAP No. 48 Investments

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 SSAP No. 26R & 43R (Julie)	Principles-Based Bond Definition	15 – SSAP No. 26R 16 – SSAP No. 43R 17 – Other SSAPs 18 – SSAP No. 21R 19 – Issue Paper 20 – BA Concept	Comments Received	IP – 15 IP – 39

Summary:

During the 2023 Spring National Meeting, the Working Group exposed revisions, to reflect a majority of interested party comments, to the statutory accounting guidance that details the bond definition and the accounting and reporting guidance for bonds (including asset-backed securities), debt securities that do not qualify as bonds, and other SSAPs were also impacted (or that referenced) the prior bond guidance. These revisions were exposed for a comment period ending June 9, 2023. The SSAP guidance exposed for comment included the following documents:

- *SSAP No. 26R—Bonds*
- *SSAP No. 43R—Asset-Backed Securities*
- *SSAP No. 21R—Other Admitted Assets*
- Other SSAP Revisions

In addition to the documents proposing SSAP revisions, during the 2023 Spring National Meeting the Working Group exposed a concept proposal to revise the reporting lines on Schedule BA to encompass debt securities that do not qualify as bonds, as well as to consolidate existing reporting lines. This item was exposed until June 30 to correspond with the Blanks (E) Working Group exposure of the bond reporting revisions.

Interested Parties' June 9, 2023, Comments:

Interested parties' comments are shown below related to each of the five separate documents exposed for comment.

SSAP No. 26R, SSAP No. 43R, and Other SSAPs

Interested parties have no comments on these exposures and are appreciative of the changes made and the responsiveness to interested parties' previous comments.

SSAP No. 21R**Paragraphs 22 and 29**

Interested parties understand that proposed paragraph 22 of SSAP No. 21 requires that the underlying collateral in an asset-backed security that fails the bond definition must qualify as admitted assets for the security to be admitted.

Paragraph 22 also proposes to report these bonds at a value that does not exceed the fair value of the collateral with any amount above the fair value of the collateral being non-admitted. Interested parties have concerns with the proposal as this would be operationally very difficult to do since some asset-backed securities can have a large number of assets and the fair value of the underlying collateral in the asset-backed security may not be readily available. This is very different from collateral loans in SSAP No. 21 where there are generally fewer assets that compose the underlying collateral. In addition, this would be costly as currently the servicer/trustee reports do not usually include fair value of the collateral so this would be a new service for which we would have to pay. Interested parties believe that accounting for these securities at the lower of cost or market of the security owned by the insurer will consider the performance of the underlying collateral. The unit of account is the security owned by the insurer and not the underlying collateral for the asset-backed security. The fair value of the bond will consider the fair value of the collateral to a great extent, but it will also take into account other key characteristics of the bond itself that impact the bond's fair value and will better reflect the consideration expected to be received upon maturity or sale of the security. If the collateral is an admitted asset, the entire carrying balance of the security should be admitted without having to quantify collateral fair value given the cost and complexity in doing so. Interested parties propose changes to paragraph 22 as a result of the comments above.

Interested parties also have comments regarding the new paragraph 29 that was added to clarify the accounting for residual tranches. We believe that the intent of paragraph 29 is to require non-admission of a residual tranche only if another tranche from the same securitization owned by the insurer fails the bond definition and the collateral is not an admitted investment. Interested parties propose changes to paragraph 29 to further clarify what we believe to be the intent of the paragraph.

We proposed the following changes to paragraphs 22 and 29 to address the aforementioned comments:

22. Debt securities in scope of this standard that do not qualify as bonds under SSAP No. 26R and for which the primary source of repayment is derived through rights to underlying collateral, qualify as admitted assets only to the extent they are secured if the underlying collateral primarily qualify as admitted invested assets. Any residual tranches or first loss positions held from the same securitization that did not qualify as a bond under SSAP No. 26R also only qualify as admitted assets to the extent the underlying collateral primarily qualify as admitted invested assets. Any amounts in excess of the fair value of the underlying admitted invested assets shall be non-admitted.

29. As stated in paragraph 22, Residuals are permitted to be admitted if debt securities from the same securitization qualify as bonds under SSAP No. 26R as an issuer credit obligation or an asset backed security. For example, if a debt security from a securitization does not qualify as a bond, and the source of repayment is derived through rights to the underlying collateral, the debt security is only permitted to be admitted if the underlying assets qualify as admitted assets. If the debt security from a securitization is nonadmitted due to the requirements under paragraph 22, then any residual interests or first loss positions held from the same securitization also do not qualify as admitted assets and would be reported as nonadmitted assets.

Paragraph 25

Interested parties also note that the way paragraph 25 below was written implies that the only securities that can fail the definition are asset-backed securities. Since an issuer credit obligation could also fail the bond definition (i.e., does not reflect a creditor relationship in substance), we believe the changes recommended below are needed to reference the appropriate accounting guidance under either SSAP No. 26 for issuer credit obligations or SSAP No. 43R for asset-backed securities.

25. Debt securities that do not qualify as bonds are captured/included in the scope of this statement. Debt securities included in the scope of this statement shall follow the guidance in SSAP No. 43R—Asset-Backed Securities or SSAP No. 26R Bonds, depending on whether they would have been classified as asset-backed securities or issuer credit obligations, respectively, should they have qualified as bonds. This includes the guidance, for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

Paragraphs 30 and 31

In paragraph 31 of the exposure, NAIC asks the following question:

Exposure Question: Industry is requested to provide information on how residual tranches have been amortized and how they have been assessed for OTTI as there are no contractual principal or interest payments.

Regarding the calculation of amortized cost and the assessment of OTTI for residuals, it has generally been industry practice to follow the SSAP No. 43R guidance for beneficial interests (i.e., paragraphs 21-25 of the bond definition proposal titled “Accretable Yield and Changes to Effective Yield for Application of Prospective Method”), which requires estimates of cash flows to be calculated quarterly with prospective yield adjustments. If there is an adverse change in estimated cash flows at the reporting date, an OTTI is recorded. Under those circumstances, the residual is written down to the current estimate of cash flows discounted at a rate equal to the current yield used to accrete the residual with the resulting change being recognized as a realized loss. If the cash flows increase from the prior period, the yield is adjusted upward. To require recognition of a loss for the entire amount of the residual would not be a reasonable accounting result. Also, for insurers who are US GAAP filers, they also apply the prospective method discussed above for their US GAAP financial statements, if they have not elected the fair value option. As a result, interested parties propose the edits below to paragraphs 30 and 31, which also include clarification on AVR treatment of residuals:

30. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values) if acquired along with debt tranches from the securitization. Subsequent to initial acquisition, residuals shall be reported at the lower of amortized cost or fair value, with changes in fair value (or from amortized cost to fair value) reported as unrealized gains or losses. To determine amortized cost, the reporting entity should apply SSAP No. 43R, paragraphs 21-25 (i.e., prospective method). Unrealized and realized gains and losses on residuals are reported in the AVR.

31. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis based on SSAP No. 43R. An OTT shall be considered to have occurred if it is probable that the reporting entity will not receive cash flows distributed to the residual tranche to cover the reported amortized cost basis. Upon identification of a probable OTTI, the reporting entity shall recognize a realized loss equal to the remaining amortized cost basis. Subsequent to the recognition of OTTI, the residual shall be reported with a zero book adjusted carrying value. Any subsequent cash flows received attributed to the residual tranche shall be reported as interest income.

Interested parties also note that the recent exposure by the Working Group that intends to expand the scope of what is considered a residual investment may require significant changes to the accounting laid out above. The accounting model for residuals issued in a securitization that we explain above is in line with the accounting for residuals that are more akin to a debt security. If the scope of a residual is expanded to include other types of residuals, this model may not fit those types of investments. Given this linkage, interested parties may have additional recommendations for the accounting discussed above as the residual investment definition is finalized.

Interested Parties’ June 30, 2023, Comments - Schedule BA:

Interested parties have the following observations and suggestions to the proposed changes to the categories within Schedule BA (Other Invested Assets):

- Ensure that all reporting categories reflect the related SSAP within the instructions.
- Recommend exposing changes to the columns.
- For investments tagged as ‘Debt Securities That Do Not Qualify as Bonds’ that are transferred from Schedule D, interested parties recommend that the investment will retain its’ NAIC Designation and its’ FE/ PLR status at the time of transfer.
- We believe the instructions for Tax Credit Investments (e.g., Guaranteed Low Income Housing Tax Credit Investments) are stale as the sentence ‘There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment’ is no longer valid.

- The various types of Tax Credit Investments (e.g., Low Income Housing; New Market; Renewable Energy) have different risks and should be evaluated accordingly and be reported according to their risks. Recommend a referral to the RBC Investment Risk & Evaluation Working Group to evaluate the various risk categories such that changes could be implemented for Annual 2025 reporting.
- Based on Ref #2022-14 (Tax Credits), interested parties will provide additional comments when this item is adopted by the Statutory Accounting Principles Working Group (SAPWG).
- Based on Ref #2023-12 (SSAP No. 48 - Residuals), interested parties will provide comments when this item is adopted by SAPWG.
- Please refer to the attached markup version of the exposure as there are several editorial revisions that we are suggesting that clarify the descriptions within the categories and language within the instructions.

Interested parties have attached a markup version of the exposure with our detailed suggested changes. (See Attachment 36)

Recommendation:

There are three separate recommendations below:

- 1) **Bond Definition:** NAIC staff is very pleased to recommend adoption of SSAP revisions to adopt the principles-based bond definition, the accounting for bonds (issuer credit obligations and asset-backed securities), as well as revisions to various SSAPs that have been updated to reflect the revised definition and/or SSAP references. This adoption, with an effective date of Jan. 1, 2025, is recommended to allow insurance reporting entities to assess their investment portfolios in accordance with the adopted bond concepts and to allow training and education materials to be developed that reflects the adopted bond definition. NAIC staff appreciate all the work, collaboration and dedicated efforts of regulators and industry in developing the bond definition and the resulting guidance.

This recommendation is for the adoption of the following exposed documents for which no comments were received:

- *SSAP No. 26R—Bonds*
- *SSAP No. 43R—Asset-Backed Securities*
- Other SSAP Revisions - (Detail of all the SSAPs impacted and the edits are in the attachment.)

- 2) **SSAP No. 21R and Bond Issue Paper:** NAIC staff recommends that the Working Group expose a revised *SSAP No. 21R—Other Admitted Assets* to provide guidance for the accounting for debt securities that do not qualify as bonds as well as proposed measurement guidance for residuals. Additionally, NAIC staff recommends that the Working Group expose an updated issue paper that details the discussions / directions in developing the bond definition and resulting guidance.

With regards to SSAP No. 21R, the interested parties' comments have been considered and are reflected as follows in the revised draft:

- Paragraphs 22 & 29: Revisions predominantly reflect the interested parties' comments. These paragraphs address admittance for non-bond debt securities where the primary source of repayment is derived through underlying rights to collateral and residual interests if debt securities from the same securitization would (or would not) qualify as admitted assets.
- Paragraph 25: Revisions do not reflect interested parties' comments. These paragraphs point to the applicable SSAP guidance that should be followed as it pertains to IMR/AVR, OTTI, etc., for non-bond debt securities. After considering the interested parties' comments suggesting to refer to both SSAP No. 26R and SSAP No. 43R, it was noted that the provisions of SSAP No. 43R for the assessment of cash flows, bifurcation of IMR/AVR and the recognition of OTTI would be more appropriate for the less-traditional

investments that would be captured as debt securities that do not qualify as bonds. As such, the original guidance was retained, which points to SSAP No. 43R for these aspects of debt securities that do not qualify as bonds. Limiting to this one specific SSAP also eliminates potential inconsistencies based on differing company assessments on whether a debt instrument that did not qualify as a bond was more akin to an issuer credit obligation or an asset-backed security.

- Paragraphs 30-32: Revisions do not reflect interested parties' comments. These paragraphs propose measurement guidance for residual interests. After reviewing the reported book adjusted carrying value (BACV), as well as amounts for unrealized valuation changes and amortization for residuals as of Dec. 2022, it has been identified that there are inconsistencies across industry on measurement method for residual interests. Industry provided comments noting that it has been a general industry practice to follow the SSAP No. 43R effective yield method guidance for beneficial interests, and for estimates of cash flows to be calculated quarterly with prospective yield adjustments for changes in expected cashflows. As such, if a company has an expectation of 20% yield over the life of the residual, they would accrue interest (accretion) to the BACV at a rate of 20% unless and until that expectation changes, at which point it would revise the yield further upward (for a favorable change in expectation) or impair the asset (if unfavorable). Due to the inherent uncertainty in both the timing and amount of cash flows for residual tranches, it has been noted that using expected cash flows to accrete residual tranches may not be conducive to the conservatism principle under statutory accounting, therefore use of the effective yield method for residuals is likely not an appropriate fit for statutory accounting purposes. Instead NAIC staff has proposed guidance for exposure and feedback that requires a lower of 'adjusted cost' or fair value measurement method with no amortization or accretion and no changes based on changes in cash flow expectations other than OTTI. Rather, all cash flows received would be treated as a return of principal / investment until the residual BACV was zero. At that point, all cash flows would be treated as interest income. This proposed guidance intends to best suit how residuals work conceptually as previously described. Feedback is requested on the fit of this methodology for residual tranches in general, but also for individual types of residuals where the concepts described above may not be representative. Feedback is also requested on transition guidance to move to a different measurement approach for residuals (whether this approach or a revised approach.)

- 3) **Schedule BA Reporting:** NAIC staff recommends that the Working Group sponsor a blanks proposal to revise *Schedule BA: Other Long-Term Assets* in accordance with the bond project for debt securities that do not qualify as bonds, with formal notice to the Valuation of Securities (E) Task Force and the Capital Adequacy (E) Task Force on the proposal to allow life reporting entities the ability to use existing Schedule BA reporting provisions for SVO-Assigned designations in determining RBC for debt securities that do not qualify as bonds. (This exposure for new reporting lines does not encompass residuals as dedicated reporting lines for residuals are already captured in Schedule BA.) *(NAIC staff will work with the blanks staff in developing the blanks proposal for exposure subsequent to the National Meeting.)*

The Schedule BA reporting revisions are expected to encompass the following:

- Revised reporting lines, similar to what was exposed and considering the interested parties' comments, to capture debt securities that do not qualify as bonds as well as revisions to other Schedule BA reporting lines and descriptions. *(NAIC staff agrees with several of the industry comments on the need to revise the reporting lines that specifically address low-income housing tax credits but acknowledges those revisions may have to wait until the separate discussion on tax credits is complete.)*
- Potential revisions to Schedule BA columns (and/or instructions) to capture applicable information on debt securities that do not qualify as bonds.

NAIC staff notes that interested parties have requested that debt securities that do not qualify as bonds be permitted to retain a filing exempt (FE) or private letter rating (PLR) capability. As this distinction is not in the purview of the NAIC Statutory Accounting Principles (E) Working Group, the interested parties should redirect

this request to the Valuation of Securities (E) Task Force (for determination of FE / PLR eligibility) and to the Capital Adequacy (E) Task Force (for the impact of such designations on RBC.)

NAIC staff has provided the following overview of the proposed reporting for debt securities that do not qualify as bonds. As detailed above, **it is recommended that the Working Group explicitly inform the Valuation of Securities (E) Task Force and Capital Adequacy (E) Task Force of this proposal and request the Valuation of Securities (E) Task Force to assess whether additional guidance is needed within the Purposes and Procedures Manual to permit or govern the assignment of SVO-Assigned designations for debt securities that do not qualify as bonds. Overview of proposal:**

- Debt securities that do not qualify as bonds are proposed to be captured in separate Schedule BA reporting lines based on whether the debt security 1) does not reflect a creditor relationship in substance, 2) lacks substantive credit enhancement, or 3) does not qualify solely due to a lack of meaningful cash flows.
- The dedicated reporting lines are proposed to be separately divided between those that have SVO-Assigned NAIC Designation and those that do not have SVO-Assigned Designations. This split is consistent with the Schedule BA reporting lines for SSAP No. 48 investments that have underlying assets with characteristics of fixed-income instruments as those securities can also be filed with the SVO for a designation.
- NAIC staff has proposed the use of the “SVO-Assigned” and “Not-SVO Assigned” reporting lines as that provides the ability for life reporting entities to continue to have corresponding RBC for the items that have SVO-Assigned NAIC designations. **It should be noted that non-SVO assigned designations on Schedule BA do not qualify for corresponding RBC. As such, if this split is removed, then none of the debt securities that do not qualify as bonds will have corresponding RBC until / unless provisions are adopted by CATF that provides that capability. By using the existing approach, NAIC SAPWG staff is proposing to continue with the established guidelines to allow life companies with securities that have SVO-assigned designations to receive corresponding RBC charges. NAIC staff notes that the ability to have RBC charges impacted by SVO-assigned designations is currently only permitted for life companies. This line of business limitation is determined by the RBC Working Groups and the Capital Adequacy (E) Task Force and is not determined by the Statutory Accounting Principles (E) Working Group.**

(Staff Note: NAIC staff identifies that this is a source of confusion by industry, and some believe that CRP designations reported on the “Not SVO-Assigned” reporting lines impact RBC. This is inaccurate. With the way the mapping works, the items reported in the “SVO-Assigned” reporting lines go to the AVR categories that result with reduced RBC based on NAIC designation. The items in the “Not SVO-Assigned” reporting lines are linked to other AVR categories that do not receive RBC impacts from the reporting designation.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-01 (Robin)	Conceptual Framework – Updates	21 – Agenda Item 22 – Issue Paper	Comments Received	IP-18

Summary:

During the 2023 Spring National Meeting, the Working Group exposed additional revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets* and *Issue Paper No. 168—Updates to the Definition of a Liability* related to the definition change of a liability. The revisions incorporate the definition of a liability from Financial Accounting Standards Boards (FASB) *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 7, Presentation*, and *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which updates the definition of an asset and of a liability. For GAAP, the FASB Conceptual statements definitions are not authoritative, but rather are concepts to consider when developing and applying guidance.

The Spring exposure also included the following revisions to 1) add an additional footnote to the definition of a liability in SSAP No. 5R which defers to more topic specific contradictory guidance 2) revise the relevant literature section of SSAP No. 5R to note the modification and 3) note the additional exposure action in paragraph 18 of the Issue Paper. These clarifications were because of the authoritative treatment that statutory accounting provides to the definition of an asset and a liability in SSAP No. 4 and SSAP No. 5R. The FASB basis for conclusions noted that some existing authoritative FASB literature regarding liabilities is inconsistent with the updates to Concepts Statement No. 8. Therefore, a modification regarding topic specific liabilities guidance was incorporated to address variations from the definition of a liability (Ex. *SSAP No. 7—Asset Valuation Reserves and Interest Maintenance Reserves* and *SSAP No. 92—Post Retirement Benefits Other than Pensions*.)

Interested Parties' Comments:

Interested parties believe the proposed changes above are responsive to our previous comments and address the issue of having statutory accounting guidance in other authoritative sources, e.g., the *NAIC Annual Statement Instructions*.

Recommendation:

NAIC staff recommends adopting the exposed revisions to SSAP No. 5R and Issue Paper No. 168—Updates to the Definition of a Liability. These items were exposed as SAP clarifications and will be effective upon adoption.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-11 (Robin)	Collateral for Loans	23 – Agenda Item	IP – Yes SBL- Comments	IP – 19 SBLIC – 32

Summary:

During the Spring National Meeting, the Working Group re-exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets. The exposed revisions

Interested Parties' Comments:

Interested parties support the proposed changes.

Security Benefit Life Insurance Company Comments:

Security Benefit Life Insurance Company would like to thank the Statutory Accounting Principles Working Group (“SAPWG”) for the opportunity to provide comments for consideration on Reference No. 2022-11—Collateral for Loans (the “Exposure”) (FN1 - Dated March 22, 2023), which proposes revisions to Statements of Statutory Accounting principles (“SSAP”) No. 21R, *Other Admitted Assets* (“SSAP No. 21R”) as follows:

1. A joint venture, partnership, or limited liability company (“JV/LP/LLC”) or a subsidiary controlled or affiliated entity (“SCA”) that is pledged as collateral to support an outstanding collateral loan balance must each be audited annually to qualify as an admitted investment.
2. The audited net equity of a pledged JV/LP/LLC and/or SCA is the basis of measurement for comparison to an outstanding collateral loan balance. Any portion of the outstanding balance of a collateral loan that is greater than the audited net equity of a pledged JV/LP/LLC and/or SCA must be non-admitted.

Firstly, consistent with the separate and broader Interested Party comment letter dated February 10, 2023, we do not believe an audit is necessary. In addition, we believe considering book value as a measure of the adequacy of collateralization, or ability for a borrower to repay a collateral loan is not supportable. Book value of equity is not acknowledged to reflect the value of what an asset would be bought or sold for (*i.e.*, the ultimate source of repayment for the collateral loan). The concept of fair value (*vs.* book value) exists precisely to represent the price that would be received for the sale of an asset in an orderly transaction between market participants at the measurement date. This variance between book value and fair value is observed in markets every day, where trading and transaction prices vary significantly from the proportionate book value of equity (hence the concept of “price-to-book multiples”). Book value can be lower than or higher than fair value. Notably, for example, insurers often trade on public markets for less than one times price-to-book value ratio (*i.e.*, book value is greater than fair value).

Using the book value of equity in lieu of fair value when assessing collateralization for the admissibility of collateral loans will all but guarantee the carrying value of the collateral will differ from what it could ultimately be sold for to repay the collateral loan. This will create volatility for insurance companies and may lead borrowers to begin to manage to a metric in the short term that does not ultimately provide the highest proceeds to repay the collateral loan.

Please consider the following example: a borrower borrows \$100 on a collateral loan to make a \$100 equity investment in an equipment leasing business. The \$100 investment equates to 20% of the company upon investment, which implies that the total business is worth \$500. The total book value of the business is \$250 (equipment leasing businesses, for example, typically trade around 2x price/ book value). This means that, immediately upon making the \$100 investment, the borrower’s stake would be considered to have a collateral value of only \$50 (*i.e.*, 20% of the \$250 book value), resulting in an immediate loss of \$50 of collateral value. Further, this differs from the statutory accounting that would apply if the insurer had made the investment directly on its balance sheet (equity-method accounting). In accordance with SSAP No. 48, the insurer would record the initial investment in an investee at cost plus subsequent capital contributions to the investee. The carrying amount of the investment would then subsequently be adjusted for the amortization difference (difference between the cost and underlying GAAP equity) over a period of time as well as for the insurer’s pro-rata share of GAAP-basis earnings or losses and distributions of the investee. Therefore, under SSAP No. 48, the investment is worth its investment at cost (*i.e.*, \$100) on day one and subsequently amortized to the GAAP equity value of the investee over the period that the investing entity benefits economically rather than at a point in time as would occur under the proposed revisions in SSAP No. 21R.

We request consideration for the likely adverse effects to decision-making this exposed revision may cause, in addition to the operational disruptiveness of immediate adoption, as discussed further in this document.

Secondly, we believe the Exposure proposes substantive changes, not clarifications, and as a result, the process for a substantive change is not being followed. The Exposure will impose undue costs and efforts if adopted, as it

substantively causes a change to the application of SSAP No. 48, *Joint Ventures, Partnerships and Limited Liability Companies* (“SSAP No. 48”) and SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities* (“SSAP No. 97”). The Accounting Practices and Procedures Manual provides that “[n]onsubstantive revisions are characterized as language clarifications which do not modify the original intent of a SSAP . . .” Utilization of fair value equity of pledged JV/LP/LLC and/or SCA investments has long been utilized as required by SSAP No. 21R and subject to both independent audits and state insurance department examinations, without this practice being raised as an issue nor requiring adjustments to financial statements. Accordingly, the Exposure modifies the original intent of SSAP Nos. 21R, 48 and 97. (FN2 - The same can be said of the Exposure’s requirement to perform audits of JV/LP/LLC and/or SCAs pledged in support of collateral loans. For years insurers have secured collateral loans with these types of interests and have been subject to both independent audit and state insurance department examinations without this practice being raised as an issue nor requiring adjustments to financial statements. We therefore believe requiring audits is a substantive change to SSAP No. 21R.)

The accelerated approach here is not supported by the analytical rigor that the SAPWG typically applies and denies affected parties the due process otherwise required when substantive changes are made. Should the Exposure be adopted with the proposed revisions to SSAP No. 21R to require audited net equity of pledged JV/LP/LLC and/or SCA investments, it would similarly be a material modification to an acceptable and supportable industry practice. It would also require insurers to disclose a change in accounting policy, which is further evidence that this is a substantive change. Furthermore, we would have to incur considerable cost and effort along with our borrowers (assuming that borrowers are willing to cooperate and, given that loan documentation was drafted prior to the changes being proposed here, there can be no assurance of such cooperation) to accurately determine the collateral value by applying the guidance prescribed in SSAP No. 48 with no assurance that we would be successful given the ability of borrowers to obtain the required information from their investees. Without the additional time typically afforded for a substantive modification, we find ourselves unable to consider effective alternative solutions in a timely manner and unable perform a full risk assessment of adoption impacts for both intended and potentially unintended consequences.

As a standard setting body (not a regulatory body), the NAIC has an obligation to adhere to proper processes and to base decisions on empirical data rather than hypotheses. Providing more process, rather than less, is critically important because decisions that the NAIC make can adversely affect competition in the industry; failing to do so can result in its decisions impermissibly choosing winners and losers in the marketplace. The Company believes that there have been other occasions where a proposed revision has been classified as “non-substantive” or a “SAP clarification,” despite the fact that the revisions have modified the intent of applicable SSAPs and thereby caused material changes in acceptable accounting practices. (FN3 - See, e.g., Exposure Ref No. 2019-24—Levelized and Persistency Commissions and Exposure Ref Nos. 2021-21—Related Party Reporting and 2022-15—Affiliate Reporting Clarification.)

Recommendation:

NAIC staff recommends revisions to SSAP No. 21R be adopted as exposed in the agenda item.

The interested parties support adoption and no changes have been proposed in their letter.

No changes have been proposed as a result of the SBL letter. NAIC staff reviewed the SBL comments and disagrees that the requirement to have audits for admittance is a new SAP concept. It is a long-standing SSAP provision that collateral loans need to be back by investments that qualify as admitted assets. SSAP No. 48 has audit requirements for investments in joint ventures, LLCs and partnerships to be admitted and that has not changed. The only change that was previously added was to address an industry request to recognize that audits do not provide fair value assurance, so for these types of collateral, the use of the audited equity value is permitted as a substitute to the fair value collateral / loan comparison in determining whether collateral is sufficient for admittance purposes.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-12 (Robin)	Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement	24 – Agenda Item 25 – INT 03-02	Comments Received	IP-20

Summary:

On March 22, 2023, the Working Group re-exposed the intent to nullify INT 03-02, effective December 31, 2023. The nullification is proposed as INT 03-02 is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with, in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions.

Interested Parties' Comments:

Interested parties note that there are several issues associated with nullifying INT 03-02 and transferring the assets that support the insurance liabilities at fair value versus book value as provided in the current guidance in the INT including the following:

- Inconsistent accounting among affiliates for a modification of the intercompany pooling agreement when some of the transfers generate a realized gain and others do not, depending on the assets transferred;
- The transfer of a bond in an intercompany pooling transaction that generates a realized gain would cause the intercompany pooling modification to be accounted for as retroactive reinsurance, which would violate the accounting guidance currently contained in SSAP No. 63;
- The use of retroactive reinsurance contradicts the basis of presentation in Schedule P for business subject to intercompany pooling agreements;
- Inconsistent presentation of underwriting assets and liabilities among participants in the pooling agreement; and
- Inconsistent accounting for intercompany transactions, as some gains would be deferred while other gains will be realized at the parent level, depending on the insurer's corporate ownership structure.

Depending on market interest rates at the time of a pooling modification, a gain or loss will result from the transfer of bonds at fair value. In times of declining interest rates, the fair value of bonds generally increase. During these times, if a bond with a fair value in excess of book value is transferred as part of a pooling modification and the transfer is accounted for at fair value, the transferor will recognize a gain. This gain will disqualify the transferor and transferee from accounting for the pooling modification as prospective reinsurance based on the accounting guidance in SSAP No. 62R paragraph 36d. However, the same pooling modification can have other participants qualify for prospective reinsurance due to no gain on transfer of the assets.

Prospective reinsurance versus retroactive reinsurance

The transferors, i.e., the ceding pool entities, that qualify for prospective reinsurance will record the premium and loss accounts as prospective reinsurance (i.e., the cedent's participation share of the total intercompany pool written and earned premium, reserves and losses are reported in the cedent's financial statements).

The transferors, i.e., the ceding pool entities, that do not qualify for prospective reinsurance will report written premiums, earned premiums, loss and loss adjustment reserves and losses and loss adjustment expenses without recognition of the retroactive reinsurance. Therefore, insurance accounts subject to pooling will not be reduced for cessions to the lead company of the pool or retrocessions by the lead company to the pool participants. Similarly, any transferees that do not qualify for prospective reinsurance, i.e., the assuming pool entities, will exclude the

retroactive reinsurance from loss and loss expense reserves and all schedules and exhibits. SSAP No. 62R requires the following for retroactive reinsurance:

- The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by the assuming entity;
- The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from any retroactive reinsurance as a special surplus fund, designated as special surplus from retroactive reinsurance account;
- The surplus gain from any retroactive reinsurance shall not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid;
- The special surplus from retroactive reinsurance account for each respective retroactive reinsurance agreement shall be reduced at the time the ceding entity begins to recover funds from the assuming entity in amounts exceeding the consideration paid by the ceding entity.

As a result of the inconsistent accounting between pool entities that are required to account for the intercompany pooling as prospective reinsurance and the pool entities that are required to use retroactive reinsurance, the financial statements of the pool will be extremely confusing and lack useful financial information. The stand-alone financial statements of the legal entities of the pool will not be consistent and the combined audited financial statements of the pool will reflect insurance accounts that are accounted for and reported using different accounting methodologies for the same underlying transactions.

As a practical matter, it would be nearly impossible for an insurer to report intercompany pooling results and balances using both prospective and retroactive reinsurance. Premium, claim, and loss systems are not built to handle such inconsistent accounting for the same underlying transactions.

SSAP No. 62R versus SSAP No. 63

The application of retroactive reinsurance as a result of the nullification of INT 03-02 would also result in a conflict with the guidance in SSAP No. 63, *Underwriting Pools*. The highlighted wording in paragraphs 8 and 9 of SSAP No. 63 instructs the preparer to record the premiums and losses based on the legal entity's participation in the pool. The use of retroactive reinsurance would violate that guidance. Regarding the last sentence of paragraph 7, the use of retroactive reinsurance would also result in timing differences between entities in the pool as a result of certain entities deferring gains in surplus.

7. Intercompany pooling arrangements involve establishment of a conventional quota share reinsurance agreement under which all of the pooled business is ceded to the lead entity and then retroceded back to the pool participants in accordance with their stipulated shares. Arrangements whereby there is one lead company that retains 100% of the pooled business and all or some of the affiliated companies have a 0% net share of the pool may qualify as intercompany pooling. In these arrangements, only the policy issuing entity has direct liability to its policyholders or claimants; other pool participants are liable as reinsurers for their share of the issuing entity's obligations. Although participants may use different assumptions (e.g., discount rates) in recording transactions, the timing of recording transactions shall be consistently applied by all participants.

8. Underwriting results relating to voluntary and involuntary pools shall be accounted for on a gross basis whereby the participant's portion of premiums, losses, expenses, and other operations of the pools are recorded separately in the financial statements rather than netted against each other. Premiums and losses shall be recorded as direct, assumed, and/or ceded as applicable. If the reporting entity is a direct writer of the business, premiums shall be recorded as directly written and accounted for in the same manner as other business which is directly written by the entity. To the extent that premium is ceded to a pool, premiums and losses shall be recorded in the same manner as any other reinsurance arrangement. A reporting entity who is a member of a pool shall record its participation in the pool as assumed business as in any other reinsurance arrangement.

9. Underwriting results relating to intercompany pools shall be accounted for and reported as described in paragraph 8. While it is acceptable that intercompany pooling transactions be settled through

intercompany arrangements and accounts, intercompany pooling transactions shall be reported on a gross basis in the appropriate reinsurance accounts consistent with other direct, assumed and ceded business.

Schedule P

Data reported in Schedule P is required to be reported net of intercompany pooling (i.e., only the reporting entity's share of the pool business is reported in Schedule P). This includes data related to premiums, losses and loss adjustment expenses, and claim counts.

Additionally, the *NAIC Annual Statement Instructions* for Schedule P require that when changes to pooling agreements impact prior accident years, historical data values in Schedule P must be restated based on the new pooling percentages. This instruction effectively recognizes that Schedule F only provides useful information related to changes in intercompany pooling agreements if such changes are treated as prospective reinsurance.

Because intercompany pooling data would not be reflected in the Schedule P of the pool entities that are required to use retroactive reinsurance accounting, distorted data would result because only a portion of the intercompany pool's loss, premium, and claim count data would be reported on Schedule P (i.e., the only pooled data reported in Schedule P would be of the pool participants that qualify for using prospective reinsurance). Note that the use of retroactive reinsurance will apply until all of the claims subject to retroactive reinsurance are settled; therefore, the distortion of Schedule P for the pool entities will likely occur for decades depending on the underlying business. As a result, the Schedule P data for the intercompany pool used by actuaries, analysts, regulators, and the NAIC (including analysis used to update RBC factors) will not be useful or meaningful.

Other intercompany pooling issues

Because intercompany pooling agreements subject certain insurance assets (e.g., agents balances) to pooling, a mismatch would occur in the financial statements of pool participants that are required to use retroactive reinsurance accounting versus the participants that are not. For the ceding entities, insurance assets would reflect the reporting entity's share of the pool business, but premiums and losses will reflect the entity's business excluding the pooling. This would occur because insurance assets such as agents balances are not subject to retroactive reinsurance accounting.

Consistency of accounting

The NAIC has noted concerns that the "guidance in INT 03-02 can result with in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements." The NAIC also notes that the "treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions." Interested parties note the following:

- As our examples illustrate, the transfer of assets using fair value in an intercompany pooling modification can result in reported realized gains reflected in certain pool participants' financial statements, as well as the combined audited statutory financial statements of the intercompany pool even though the assets remain in the pool.
- The transfer of assets at fair value in an intercompany pooling modification can also result in inconsistent accounting for intercompany transactions, as some gains would be deferred while other gains will be realized at the parent level, depending on the ownership structure of the entities in the intercompany pool.

SSAP No. 63

SSAP No. 63 has limited accounting guidance related to intercompany pooling agreements and instead primarily provides a discussion of what an intercompany pooling agreement is and contains a reference to INT 03-02 in paragraph 5. We believe that a more effective approach to addressing the concerns over moving invested assets at book value in a modification of an intercompany agreement would be to incorporate portions of INT 03-02 into SSAP No. 63, require that insurers settle the movement of assets and liabilities on a net basis (i.e., the net of pool

assets less pool liabilities) to minimize the movement of assets, require disclosure if assets with fair values that differ from cost or amortized cost are transferred as part of the modification, and include a cross reference in SSAP No. 25 to the updated guidance in SSAP No. 63 for transfers of assets associated with a modification of an intercompany pooling agreement. This approach would also provide guidance on such modification where none would exist in the absence of INT 03-02. Please see recommended changes to SSAP No. 63 in the attached.

Since the guidance regarding the transfers of assets associated with modifications of intercompany agreements would be located in SSAP No. 63, we recommend that SSAP No. 25 include a new paragraph 4 to direct the reader to the guidance in SSAP No. 63 as follows:

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for in accordance with the guidance in SSAP No. 63 – Underwriting Pools.

Recommendation:

NAIC staff continues to recommend nullification of INT 03-02 and does not recommend incorporation of the interested parties proposed revisions in SSAP No. 25 and SSAP No. 63. NAIC staff believes that the existing guidance in the SSAP No. 62R implementation guide provides useful guidance regarding some of the issues raised by interested parties regarding measurement of gains under the reinsurance contract versus gains on sales of investments. At a high level, NAIC staff believe these are separate evaluations under SSAP No. 62R and would like the opportunity to further discuss this with regulators and interested parties. For the Summer National Meeting, NAIC staff recommend that the Working Group defer action, to allow NAIC staff to work with interested parties to develop additional recommendations for future Working Group discussion.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-14 (Wil)	New Market Tax Credits	26 – Agenda Item 27 – SSAP No. 93R 28 – SSAP No. 94R	Comments Received	IP – 34

Summary:

On May 16, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. The following are significant revisions detailed in the exposure of SSAP No. 93 and 94R:

- SSAP No. 93—Investments in Tax Credit Structures – In response to comments received from interested parties, the scope of the SSAP has been expanded to include tax credit investments irrespective of structure which is a departure from GAAP guidance which is only applicable to tax equity investments. Additionally, SSAP No. 93 has been revised so that it provides guidance on the investment structure whereas SSAP No. 94R provides guidance on state and federal tax credits, which would include tax credits allocated from tax credit investments. This statement applies the proportional amortization method in *2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*.
- SSAP No. 94R—State and Federal Tax Credits – The scope of the SSAP has been expanded to include all state and federal tax credits which have been allocated to or purchased by the reporting entity. The previous version of SSAP No. 94R required tax credits which were purchased at a discount to be recorded at cost which effectively deferred the gain on purchase by creating an off-balance sheet asset that could not be recognized until the cost basis was utilized by the reporting entity. The revised version of SSAP No. 94R eliminates the off-balance sheet asset requirement and instead requires tax credits to be recorded at face value; acquisitions at a premium require the loss to be immediately recognized whereas acquisitions at a

discount require the gain be deferred as an “other liability” until the reporting entity has utilized tax credits in excess of the acquisition cost.

Interested Parties’ Comments:

Interested Parties appreciate the opportunity to comment on the substantive revisions exposed by the Working Group to SSAP No. 93 - *Low Income Housing Tax Credit Property Investments* and SSAP No. 94 *Transferable and Non-Transferable State Tax Credits*. As stated in our prior comment letter on this topic, interested parties agree with having uniformity in accounting and reporting for equity and debt investments for which the return is earned primarily through tax credits. Interested parties also 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 have a few comments on the exposure to make sure the guidance is clear and insurers know how to apply it.

SSAP No. 93

- 1) Paragraph 2 and 3– Paragraph 2 includes the criteria for investments in tax credit structures to apply the proportional amortization method. If an investment does not meet the criteria, then paragraph 3 states that the investment should follow the applicable statutory accounting statement. For equity investments, that means that SSAP No. 48 should be followed, which would require the use of equity method of accounting. For bonds in tax credit structures that do not meet the definition, interested parties believe that the bond needs to be analyzed under the new proposed principles-based bond definition to determine if bond reporting or other-invested asset reporting is required. Interested parties recommend clarifying this in the standard if that is the case.
- 2) Paragraph 14 (a) –This paragraph states that tax credits under the SSAP No. 93 accounting guidance are to be recorded and assessed for admittance in accordance with SSAP No. 94. Interested parties found this confusing and subject to many different interpretations. There is a key difference between SSAP No. 93 and SSAP No. 94 tax credits in that SSAP No. 93 tax credits are only earned as part of the return on the investment so the only asset recorded on the insurer’s books is related to the investment itself. The tax credits are only recorded upon becoming available for use on a reporting entity’s tax return. Therefore, there is no tax credit to non-admit per se. In the rare case that the tax credit cannot be utilized in the year that it is allowed to be utilized due to the insurer not having enough income from operations in the case of federal tax credits or premium income in the case of state programs, the insurer would record a Deferred Tax Asset (DTA). Any DTA set up would be subject to the admissibility requirements under SSAP No. 101 - *Income Taxes*. For these reasons, interested parties recommend that paragraph 14 (a) be removed.
- 3) Paragraph 18 (a) and (b) and (c) - These paragraphs are intended to address admissibility considerations. Paragraph (c) states that if the tax credits cannot be utilized in the next three years, they will be non-admitted, while paragraphs (a) and (b) are intended to address instances when the credits cannot be utilized by the insurer, but the insurer has the ability to sell them to third parties or get a refund for the credits. We understand from discussions with the Working Group that the intent of this guidance is for an insurer to first start with the assessment in (c) to determine if it will be able to utilize the tax credits in the next three years. If not, then the insurer can consider whether the tax credits can be sold or whether the insurer can be reimbursed for the credits if unable to utilize them. Under the former, the insurer can admit the credits up to their fair value as the insurer would recover the fair value in a sale. Under the latter, the insurer can admit up to the amount of the expected refund.

Similar to our comments under #1 above, it is not clear to us what exactly we are non-admitting. As explained above, the only item that gets recorded on the balance sheet as an actual asset is the investment itself. The cost of the investment is amortized in proportion to the tax credits earned every year regardless of whether the credits are utilized or not. Admissibility requirements are already addressed for the investment itself in the proposal (i.e., the tax opinion and audited financial statements). As the tax credits are allocated to the insurer, they either reduce federal income taxes, or state/premium taxes. If the tax credits cannot be utilized in a given year, a DTA would be established. Any admissibility rules on the DTA itself are already addressed in SSAP No. 101 - *Income Taxes*.

If the DTA admissibility is what is being addressed in paragraph 18, interested parties recommend that be clarified. We understand that this may have been one of the reasons why the SSAP No. 93 proposal references SSAP No. 94. As stated above, to avoid any confusion regarding the accounting for the tax credits earned in a SSAP No. 93 investment, we suggest including all guidance in SSAP 93 (i.e., no reference to SSAP 94) regarding the credits earned in a SSAP No. 93 investment. Interested parties also have the following suggested edits to make the admissibility rules on the tax credits themselves clear.

~~Paragraph 18 – If tax credits allocated to the reporting entity cannot be utilized in the year they have been allocated to the entity, a deferred tax asset (DTA) would be established. Under those circumstances, the reporting entity would follow the requirements under SSAP No. 101 *Income Taxes* regarding admissibility rules on DTAs. A reporting entity is required to assess the realization of tax credits against tax liability for both the tax year in which the credit can be initially utilized as well as in accordance with carry-forward and/or carryback periods to determine the extent the investments can be admitted:~~

~~a. — Tax credit investments which allocate tax credits which are transferable in accordance with permitted IRS or state tax provisions are admitted up to the lesser of the proportional amortized cost, or fair value of the tax credits.~~

~~b. — Tax credit investments which allocate tax credits eligible for direct payment are admitted up to the lesser of the proportional amortized cost, or the estimated proceeds.~~

~~c. — For all other tax credits, if a reporting entity does not expect to fully utilize investment tax credits in the upcoming tax year or for a carryback year, the reporting entity shall perform an assessment to determine the extent it will be able to utilize the tax credits over the life of the investment. If assessment projections identify that the tax credits from investments in tax credit programs will exceed what can be utilized under IRS or state tax provisions (current and other applicable tax periods), 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. Additionally]. In making this assessment, the reporting entity is not permitted to assume increased operations (e.g., expanded product sales) beyond actual experience to conclude that additional federal or state tax liability will exist that would allow additional utilization of tax credits. A reporting entity can 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 tax credits.~~

- 4) Paragraph 34 - The SSAP No. 93 exposure states that reporting entities shall prospectively modify the recognition, accounting and reporting of tax credit investment structures to follow the guidance under SSAP No. 3. We believe this means that on day of adoption, the SSAP No. 93 investment’s book value is the starting value of the investment and the prospective method will be applied using that book value and amortizing the book value at the date of adoption based on the future tax credits to be earned. If that is the case, some clarification on the application of the prospective method would be helpful. Those companies that are US GAAP reporters are to apply the FASB ASU on a retrospective basis and thus there will continue to be differences between US GAAP and Statutory proportional method results for already existing tax credit investments. We believe further clarification of how the prospective method is to be applied for Statutory reporting should be clarified to avoid inconsistent interpretation of the intent.

SSAP No. 94

- 1) Paragraph 1 – This paragraph explains the scope of the types of tax credits that fall within the SSAP No. 94 guidance. Interested parties believe that the key difference between SSAP No. 93 and SSAP No. 94 is that SSAP No. 93 relates to tax credits that are earned as a result of being an investor (i.e., an equity investor) in the entity earning the credits and SSAP No. 94 relates to tax credit certificates that are purchased outright without being an investor in the entity. To make sure that is clear, interested parties propose the following changes to paragraph 1

Paragraph 1 – This statement establishes statutory accounting principles for state and federal tax credits certificates that are purchased by the reporting entity without being an investor in the entity

~~from which the tax credit certificates were purchased. that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts)~~

- 2) Paragraph 2 - The last sentence in this paragraph states that the tax credits received from SSAP No. 93 tax credit investments are within the scope of SSAP No. 94. For the reasons stated above in the SSAP No. 93 section of this comment letter, we do not think that SSAP No. 94 and SSAP No. 93 should be linked. As stated above, there are two very different assets that are recorded upon purchasing an investment under SSAP No. 93 versus SSAP No. 94. 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. For that reason, interested parties recommend removing the last sentence in paragraph 2 as suggested below.

Paragraph 2 - Investments in tax credits as discussed in SSAP No. 93R - *Investments in Tax Credit Structures*, which involve investments in projects or programs that generate general business federal tax credits or state tax credits, are not within the scope of this statement. ~~However, the tax credits received from tax credit investments are within the scope of this statement.~~

- 3) Paragraph 9 - This paragraph states that federal and state 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 or state premium tax, respectively. Interested parties note 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. Based on that, we propose the following changes:

Paragraph 9 – Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:

- a. ~~Federal and state tax credits are recorded as other-than-invested assets upon purchase. As the tax credits are redeemed, the carrying value of the tax credits is reduced dollar for dollar by the amount of tax credits applied toward the reporting entity's federal or state/premium tax liability, as applicable, 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 net of deferred tax asset (DTA) in accordance with SSAP No. 101.~~
- b. ~~Federal and Sstate 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 they are available for use allocated or purchased and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA). gross of any related state tax liabilities and reported in the category of other than invested assets (not reported net).~~

We have updated the illustration that was included in Exhibit B below to reflect this as well.

- 4) Paragraph 7 - The accounting for purchased tax credits under the SSAP No. 94 exposure is different from the current guidance in that the credits will be recorded at face value instead of at cost. Interested parties do not have an issue with this accounting treatment per se, but we would like to point out that this is not consistent with the accounting treatment for other types of assets that are purchased at a premium or discount such as bonds and mortgage loans.
- 5) Exhibit B – Accounting for Non-Transferable Tax Credits

Interested parties recommend some edits to the illustration under Exhibit B to reflect the changes described in item 2) above. In addition, the edits below include other edits that we believe are necessary to show the appropriate flow of transactions and to add clarity to the accounting for federal tax credit certificates.

On 7/1/X1 LJW Insurance Company purchased non-transferable federal tax credits for a cost of \$100,000. The federal tax credits are redeemable for \$110,000 and expire on, April 1, 20x2. LJW expects to utilize the tax credits before expiration in the amount of \$110,000. The credits are earned pro-rata every quarter from acquisition date to expiration date. Therefore, the credits earned quarterly are about \$36,666. 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
	<i>To record the purchase of the tax credits</i>		
9/30/x1	Income Premium tax expense	36,666	
	Income Premium taxes payable to		36,666
	<i>To record quarterly income tax liability.</i>		
10/1/x1	Income taxes payable	36,666	
	Federal tax credits		36,666
	<i>To record the use of tax credits in the quarter</i>		
12/31/x1	Income tax expense	36,666	
	Income taxes payable		36,666
	<i>To record quarterly income tax liability</i>		
1/1/x2	Income taxes payable	36,666	
	Federal tax credits		36,666
	<i>To record the use of tax credits in the quarter</i>		
3/31/x2	Income tax expense	36,666	
	Income taxes payable		36,666
	<i>To record quarterly income tax liability</i>		
4/1/x2	Income taxes payable	36,666	
	Deferred gains on acquired tax credits	10,000	
	Other Income		10,000
	Federal tax credits		36,666
	<i>To record the use of income tax credits in excess of cost and recognize a gain on premium tax credits in other income.</i>		

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.

Based on the review of the interested parties June 30, 2023, comment letter, NAIC Staff has proposed the following additional edits for exposure:

- SSAP No. 93 was revised so that accounting guidance for allocated tax credits was contained within instead of directing readers to refer to SSAP No. 94R.

- The admittance criteria detailed in paragraphs 18(a)-(c) is unchanged. This is because the admittance criteria detailed pertains to the tax credit investments rather than the tax credits allocated.
- SSAP No. 94R was revised to exclude SSAP No. 93 allocated tax credits.
- The interested parties’ proposed revisions which would allow purchased federal tax credits to be initially reported as other than invested assets and then transferred to deferred tax assets if not utilized in the same period it was purchased were not incorporated. In practice this would require a transfer between reporting lines simply because the tax credit was utilized within a year.

Further discussion details are in the status section in agenda item 2022-14. NAIC staff appreciates the interested parties’ comments and would like to continue discussions on these proposed revisions in the interim period.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-19 (Julie)	Net Negative (Disallowed) IMR	29 – Agenda Item 30 – INT 23-01T	Comments Received	IP – 14

Summary:

This agenda item has been developed to discuss the interest maintenance reserve (IMR) within statutory accounting, specifically the current guidance for the nonadmittance of disallowed negative IMR. Although the statutory accounting guidance has been in place for several years, the rising interest rate environment has created an increased likelihood for reporting entities to move to a negative IMR position. Discussion of this topic began after receipt of an ACLI comment letter dated Oct. 31, 2022, that included the following two positions:

- In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders. However, with negative IMR, there is an inappropriate perception of decreased financial strength through lower surplus and risk-based capital.
- Negative IMR could impact the rating agency view of the industry or incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. In either scenario, negative IMR encourages short-term non-economic activity that is not in the best long-term interest of a reporting entity’s financial health or its policyholders.

Since the receipt of the ACLI letter, the Working Group has discussed this issue and directed various actions. Most recently, on June 28, 2023, the Working Group met to hear comments on an interpretation (INT) exposed to permit limited admittance of net negative (disallowed) IMR. As a result of that meeting, the Working Group directed NAIC staff to incorporate several revisions to the proposed INT to reflect the following:

- Requirement for RBC over 300% after adjustment to remove admitted positive goodwill, EDP equipment and operating system software, DTAs and admitted IMR.
- Allowance to admit up to 10% of adjusted capital and surplus – first in the GA, and then if all disallowed IMR in the GA is admitted and the percentage limit is not reached, then to the SA account proportionately between insulated and non-insulated accounts. *(The adjustments are the same that occur for the RBC adjustment and reduce capital and surplus before applying the 10% percentage limit.)*
- There is no exclusion for derivatives losses included in negative IMR if the company can demonstrate historical practice in which realized gains from derivatives were also reversed to IMR (as liabilities) and amortized.
- Inclusion of a new reporting entity attestation.

- Effective date through Dec. 31, 2025, with a note that it could be nullified earlier or extended based on WG actions to establish specific guidance on net negative (disallowed) IMR.
- Application guidance for admitting / recognizing IMR in both the general and separate accounts.

The revised INT was exposed via evote on July 5, 2023, for a shortened comment period ending July 21, 2023.

Interested Parties' Comments:

The American Council of Life Insurers (ACLI) appreciates the thoughtful and timely attention the Statutory Accounting Principles Working Group (SAPWG) and NAIC Staff have dedicated to this important topic. We also appreciate regulators' recognition for the need of an interim solution for negative Interest Maintenance Reserves (IMR), while a longer-term solution is pursued and ultimately finalized.

ACLI supports the adoption of the Interpretation at the Summer National Meeting and has no substantive comments, as it reflects what was agreed upon to by SAPWG at the June 28, 2023 meeting. However, ACLI has shared with NAIC Staff three minor editorial comments that we understand will be part of the Summer National Meeting materials and proposed as friendly amendments.

ACLI also proposes the consideration of an Ad Hoc Technical Working Group, perhaps comprised of regulators from both SAPWG and LATF, as well as industry and the American Academy of Actuaries, to address the many complexities of IMR in the development of the long-term solution.

The interim solution is not designed to permanently address this complex issue and we hope that such a Working Group can take a holistic view of all the data to construct a measured, effective and sustainable permanent solution.

Recommendation:

NAIC Staff recommends adopting the exposed tentative INT 23-01 with the three editorial revisions noted below. NAIC staff has worked with industry in identifying these proposed changes. As detailed within the INT, it will be effective until Dec. 31, 2025, and automatically nullified on Jan. 1, 2026, but the effective date can be adjusted (nullified earlier or extended) in response to the Statutory Accounting Principles (E) Working Group actions to establish statutory accounting guidance specific to net negative (disallowed) IMR.

Upon adoption of the INT, NAIC staff will provide the Blanks (E) Working Group a disclosure memo for posting on their website for year-end 2023. Additionally, a blanks proposal will be sponsored to incorporate the disclosures and attestation requirements into the notes and general interrogatories for year-end 2024.

NAIC staff requests feedback from the Working Group on the formation of an Ad Hoc Technical Group as requested by the ACLI.

Editorial Revisions:

1) Reference authorized control level (ACL) when identifying the 300% RBC requirement. (Paragraph 9b)

9.b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.

2) Add reference to clarify that the focus on the disclosures is for asset sales that were generating admitted negative IMR. (paragraph 13.c.iv)

13.c.iv Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

3) Missing the word “account” in the application guidance. (Paragraph 6 of S/A Application Guidance)

6. Net negative IMR in the separate account (aggregated IMR in both insulated and non-insulated separate accounts) that exceeds net positive IMR in the general account is considered “disallowed” separate account IMR. If the aggregate separate account IMR is positive, with a negative IMR in the insulated separate account and positive IMR in non-insulated separate account (or vice versa), then the negative IMR in the insulated separate account is not permitted to be reported as an asset. In those situations, the separate account has an aggregate positive IMR balance.

Voting note: The proposed INT 23-01 overrides existing SSAP and A/S instructions, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the INT for adoption.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-01 (Julie)	Review Annual Statement Instructions for Accounting Guidance	31 – Agenda Item	Comments Received	IP – 24

Summary:

This agenda item was developed to establish a project to review the annual and quarterly statement instructions to ensure that all accounting guidance is properly reflected within the Statements of Statutory Accounting Principles (SSAPs). Although duplication or reference of accounting guidance may occur for ease of application the reporting guidance, the focus of this project is to ensure that the annual or quarterly statement instructions are not the source of statutory accounting guidance. For purposes of this agenda item, accounting guidance is intended to refer to measurement, valuation, admittance / nonadmittance, as well as when assets and liabilities should be recognized or derecognized within the statutory financial statements.

This agenda item and project was proposed due to limited situations in which the annual statement instructions have been identified to reflect more detailed accounting guidance than the SSAPs. Under the Statutory Hierarchy, the SSAPs are Level 1 and are the authoritative source for accounting provisions. If guidance does not exist in the SSAPs, then other sources of guidance can be considered based on the statutory hierarchy, but it is not intended that guidance be captured in the annual statement instructions (which are level 3) in lieu of the inclusion of guidance in the SSAPs.

Interested Parties’ Comments:

Interested parties are aware of Annual Statement guidance on IMR /AVR and Schedule F penalties that should be considered for inclusion in SSAP’s as well as the guidance related to intercompany pooling arrangements discussed above. If additional items come to our attention, we will inform the Working Group.

Informal Comments:

The following comments were also received informally regarding health reporting:

1) Presentation of Co-payments and Deductibles: The instructions for the Statement of Revenue and Expenses, Line 9 *hospital and medical benefits expense*, state that expenses should be shown net of coordination of benefits, copayments and deductibles. However, this guidance is not present in the SSAPs. For HMO’s that provide medical services, the copayments and deductibles are paid directly to the reporting entity.

- 2) Presentation of Fee-for-Service Revenue: The statement instructions for Line 4 - *Fee-for-service* of the Statement of Revenue and Expenses state that the fee-for-service revenue should be reported net of expenses incurred. However, this guidance is not present in the SSAPs.
- 3) Presentation of Gains/Loss on Fixed Assets: The statement instructions for Line 7 - *Aggregate Write-Ins for Other Health Care Related Revenues* of the Statement of Revenue and Expenses states that gains/loss on fixed assets should be reported in this section as part of the underwriting gain/loss. Our understanding from previous correspondence with NAIC staff is that this is limited to non-Real Estate property assets such as equipment, furniture etc. Can a reference be made in SSAP No. 19R—*Furniture, Equipment and Leasehold Improvements* or SSAP No. 73—*Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*. Gains/loss from real estate investments would be reported in Line 26 *Net Realized Capital Gains/Loss* as mentioned in *SSAP No. 90R—Impairment or Disposal of Real Estate Investments*, paragraph 31.

Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to proceed with a broad project to review the annual statement instructions and ensure accounting guidance is included within the SSAPs. NAIC staff plans to proceed with separate agenda items for the specific topics, but to reference this broad Working Group direction as the source for the various proposals.

NAIC staff has drafted preliminary agenda item, which is presented under the meeting agenda, to begin on a long-term project to update *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. NAIC staff will review the informal comments for consideration in potential subsequent agenda items.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-04 (Robin)	Corporate Alternative Minimum Tax Guidance	32 – Agenda item 33 – INT 23-03	Comments Received	IP – 1

Summary:

This agenda item proposes an *Interpretation INT 23-03: Inflation Reduction Act - Corporate Alternative Minimum Tax* to provide guidance regarding the CAMT for periods on and after the year-end 2023. The CAMT is more complex than the prior alternative minimum tax and it is assessed at the consolidated return level using book income.

Interested parties of the SAPWG have submitted a draft INT (in the comment letters) to assist with addressing many technical aspects of the guidance. While the INT that is proposed for exposure has some departures from the industry proposal, the Working Group appreciates the cooperation and input provided by the industry technical experts in addressing the guidance.

Background: The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT) which goes into effect for 2023 tax years. The CAMT applies only to corporations (determined on a tax-controlled group basis as defined for federal income tax purposes) with average annual adjusted financial statement income in excess of \$1 billion for three prior taxable years. The threshold is reduced to \$100 million in the case of certain foreign-owned corporations.

A corporation that meets the applicable threshold is an “applicable corporation.” Applicable corporations generally remain applicable corporations for subsequent taxable years unless certain limited exceptions apply. Applicable corporation status means that CAMT must be tentatively determined and compared to regular tax liability. The tax liability is the higher amount.

Payment of the CAMT results in a tax credit which does not expire. However, the tax credit can only be used to pay “non CAMT” federal taxes which are above the CAMT amount (that is the CAMT credit cannot be used to pay CAMT taxes.) Therefore, as long as the consolidated group is a CAMT payor, the CAMT tax credit cannot be used.

The Working Group has previously adopted temporary guidance to address the CAMT in *INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax*. This guidance will expire on August 16, 2023. The meeting agenda has a separate proposed Interpretation for third quarter 2023 CAMT reporting (See INT 23-02).

Interested Parties’ Comments:

Interested parties are now providing a draft of suggested language for a recommended Interpretation addressing the statutory accounting for the CAMT. This draft is intended to aid the SAPWG staff by providing the interested parties’ proposal in direct language suitable for an Interpretation. The draft Interpretation is more detailed than the previously provided material and also includes transitional guidance, as well as suggested disclosures. We believe this detailed language should help prevent different interpretations among the industry and the accounting firms.

In drafting this proposal, interested parties followed the guiding principles that you previously communicated. First, given that CAMT only applies to a limited number of large and profitable companies, SSAP No. 101 – Income Taxes does not need to, and should not, be opened and rewritten. Although guidance is necessary to address how the consolidated tax should be accounted for under statutory accounting, revising SAAP No. 101 is not necessary as this draft clarifies the existing guidance in SSAP No. 101. Following this guiding principle, interested parties drafted guidance through an Interpretation, leaving SSAP No. 101 intact. Next, given that the CAMT is calculated based on consolidated book income and not taxable income, you suggested the use of the tax sharing agreement to bridge the CAMT calculation to the separate company statutory statements. As such, the proposed Interpretation relies on tax sharing agreements to allocate the consolidated CAMT for purposes of the admittance calculation. In addition, all insurance companies will have different organizational structures, various book income starting points (U.S. GAAP, STAT or IFRS), and other facts and circumstances that will lead to unique situations under the CAMT. To avoid situational guidance, you indicated the solution should be principles-based and cover all insurance companies. By using a hierarchy of filers, the proposal covers all insurance companies without the need to address company specific issues. Finally, you suggested the solution should be developed between the working group and the industry, not external audit firms. Utilizing industry and working group representatives to develop the guidance prevents external audit firms from deviating in how they require insurance companies to account for the CAMT.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification and expose INT 23-03: Inflation Reduction Act - Corporate Alternative Minimum Tax for comment with a proposed effective date of year-end 2023. NAIC staff requests Working Group input regarding the SSAP No. 101 paragraph 11c admissibility test noted below, prior to the exposure. (Expose one of the two options below to paragraph 34 of the INT or direct some other action.) During the comment period, input is requested regarding whether references to the INT should be added to SSAP No. 101 scope and disclosure section.

The industry technical draft was very helpful in noting technical concerns and is much appreciated. Key points of the proposed in INT 23-03 guidance include the following:

1. The guidance is for the following categories of entities:
 - nonapplicable (not doing the calculation);
 - applicable (has to do the CAMT calculation and may or may not have to pay) and
 - applicable but has a tax sharing agreement which exclude them from paying the CAMT,
2. Follows existing guidance in SSAP No. 101 to the extent practicable for the CAMT including:

- The reporting entity receives / uses the **statutory valuation allowance (SVA)** assessment from the group for CAMT. The entity continues to complete the SVA separately for all other non-CAMT DTAs. (An entity that is not part of the group assesses SVA for all DTAs themselves.)
 - Utilizes the Realization Threshold Limitations Tables in SSAP No. 101, paragraph 11.b. as applicable. Most entities will be above 300% RBC ex DTA RBC and will admit the CAMT tax credits in that can be utilized within 3 years along with other DTAs in this admissibility step up to 15% of statutory capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for the current reporting period's statement filed with the domiciliary state commissioner adjusted to exclude any net DTAs, EDP equipment and operating system software and any net positive goodwill.
 - Provides an exception to SSAP No. 101 in that entities in top line of the realization tables (3years/ 15%) will not have to do the with and without calculation to determine the impact of the CAMT on realization of DTAs in the admissibility test. (Industry requested that these entities not have to apply with and without).
 - Relying on the tax allocation agreements for the treatment of the CAMT
3. Requires disclosures.
 4. Provides transition guidance including allowing reliance on unapproved TSA agreements filed by year end, with domiciliary DOI consent.

Working Group Input Requested on SSAP No. 101, paragraph 11 c.

Working Group direction is requested on paragraph 34 of the INT (shown below). Two paragraph choices are provided.

Yes, full paragraph 11c offset – Proposed to admit CAMT credits under paragraph 11c. This would treat the CAMT credit similar to other DTAs.

34. The adjusted gross DTA for any CAMT tax credit carryforward which does not qualify for admission under SSAP No. 101, paragraph 11. a. or 11. b. is permitted to be recognized as an offset against applicable deferred tax liabilities (DTLs) in accordance with SSAP No. 101, paragraph 11.c. The amount of adjusted gross DTAs, after application of paragraphs 11.a. and 11.b. that can be offset against existing gross DTLs. The reporting entity shall consider the character (i.e., ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations.

No, paragraph 11c offset - Proposes not to admit any CAMT \ credits under paragraph 11c which is the third step of the DTA admissibility test. This is a departure from SSAP No. 101, paragraph 11c.:

34. The adjusted gross DTA for any CAMT tax credit carryforward which does not qualify for admission under SSAP No. 101, paragraph 11. a. or 11. b. is not permitted to be recognized as an offset against applicable deferred tax liabilities (DTLs) in SSAP No. 101, paragraph 11.c. This restriction is consistent with the noted elements of CAMT tax credits and their restrictions on utilization. It is not permissible to reduce DTLs for a tax credit that the reporting is not eligible to use.

SSAP No. 101, paragraph 11.c admits the amount of adjusted gross DTAs, after application of paragraphs 11.a. and 11.b. that can be offset against existing gross DTLs. Under paragraph 11.c the reporting entity has to consider the character (i.e., ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations. For example, an adjusted gross DTA related to unrealized capital losses could not be offset against an ordinary income DTL. Whereas ordinary DTAs can be

admitted by offset with ordinary DTLs and/or capital DTLs. Initial information indicates that the CAMT credit will be available to be used against “ordinary taxes.”

The CAMT credit carryforward does not expire. However, it has additional contingencies that make the utility of offsetting the CAMT credit fully against DTLs more questionable as noted below.

- The CAMT tax credit can’t directly offset other DTLs. The CAMT credit only gets utilized to the extent 21% of regular taxable income exceeds 15% of adjusted financial statement income.
- Because the CAMT credit cannot be used for CAMT liabilities it cannot be used as long as the group is a CAMT Payor. This would be beyond the regular analysis of valuation allowance, which for CAMT is done at the group level.
- While having more DTLs that reverse would generally increase the likelihood that 21% of regular taxable income will exceed 15% of adjusted financial statement income, this is not guaranteed.
- DTLs help determine regular taxable income which is just one component of determining whether the CAMT credit carryforward gets utilized (the other component is 15% of adjusted financial statement income).
- The CAMT DTA is a credit, similar to a Net Operating Loss carryforward, which does not have a reversal pattern. The entity must be eligible to use it for future filings.

The Working Group can direct the following actions 1) yes, expose with paragraph 11c offset (allows the CAMT tax credits which can be offset against DTLs to be admitted) or 2) expose with no paragraph 11c offset above (excludes admissibility of the CAMT credit under SSAP No. 101, paragraph 11c), or 3) some other action such as applying a haircut of some type to the CAMT tax credits admissible under SSAP No. 101, paragraph 11.c.

Voting note: The proposed INT 23-XX for year-end 2023 provides overrides to SSAP No. 4, SSAP No. 9 and SSAP No. 101 guidance, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-06 (Robin)	Additional Updates on ASU 2021-10, Government Assistance	34 – Agenda Item	Comments Received	IP – 25

Summary:

On August 10, 2022, the Statutory Accounting Principles (E) Working Group adopted, revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* in agenda item 2022-04: ASU 2021-10, Government Assistance. The revisions incorporate certain disclosures, adopted with modification from ASU 2021-10, to supplement existing disclosures regarding unusual or infrequent items.

This agenda item is to provide additional clarifications to SSAP No. 24, regarding follow-up questions, that NAIC staff received regarding the adoption of the disclosures about government assistance in ASU 2021-10. The primary questions were regarding whether the adoption with modification of the ASU disclosures intended to allow insurers to use the grant and contribution model. If the intent was not to allow for the use of the grant and contribution model, then the question becomes in what situation would these disclosures be required Because NAIC staff understanding is that the grant and contribution model is not intended to be permitted for statutory accounting,

additional modifications to clarify this point have been proposed which reject ASU 2021-10 but still incorporate government assistance disclosures.

Interested Parties’ Comments:

Interested parties agree with the proposed revisions to SSAP No. 24, as exposed in Ref 2023-06, subject to the following comments.

Interested parties noted that the Working Group’s discussion of Ref #2023-06 in the Spring 2023 Working Group meeting agenda, indicated that use of a grant or contribution model was not intended to be permitted when accounting for government assistance under statutory accounting principles. The discussion did not indicate what accounting model should be applied. Interested parties are not aware of specific statutory guidance addressing the accounting for government assistance transactions, and believe, in the absence of specific guidance, companies may look to industry practice and other nonauthoritative GAAP guidance, which supports the use of a grant or contribution model, to determine appropriate statutory accounting treatment. Additionally, interested parties believe the disclosure requirements in SSAP No. 24 provide sufficient detail to allow a user of the financial statements to adequately understand the impact of any government assistance received by an insurer on its results regardless of the accounting model used to recognize and measure the assistance. Given these considerations and the relative infrequent occurrence of such items, interested parties suggest that the Working Group clarify that the intent of the exposed revisions in Ref #2023-06 are to require disclosure of unusual or infrequent government assistance transactions regardless of how such transactions are accounted for, and are not intended to prohibit entities from accounting for government assistance transactions through the use of a grant or contribution model.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 24 as exposed. NAIC staff does not recommend any additional revisions are needed as ASU 2021-10 is rejected and the remaining disclosure is about government assistance, not the form of accounting for such assistance. If preferred, the disclosures could be wholly rejected.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-12 (Julie)	Residuals in SSAP No. 48 Investments	35 – Agenda Item	Comments Received	IP – 40

Summary:

This agenda item proposes revisions to clarify the scope and reporting for investment structures that represent residual interests within statutory accounting principles. Previously, revisions have been incorporated in *SSAP No. 43R—Loan-Backed and Structured Securities* to address the reporting of residual interests within securitization structures. With these revisions, residual interests, as defined within SSAP No. 43R, were required to be reported on Schedule BA on designed reporting lines beginning year-end 2022. After reviewing the 2022 reporting results, it was identified that the information for residuals may be underrepresented as a result of the various legal forms that residual investments can take. For example, a reporting entity could hold investments that have the substance of residual interests in the form of limited partnerships, joint ventures, or other equity fund investments. To ensure collective and consistent reporting of all residual interests, this agenda item proposes guidance to clarify the reporting of in-substance residuals regardless of the structure of the investment vehicle.

The discussion of residual interests often compares those securities to equity interests. These two investment structures are not synonymous, and it should not be perceived that all equity interests reflect residuals. A residual interest or a residual security tranche exists in investment structures that are backed directly, or indirectly through a feeder fund, by a discrete pool of collateral assets. These collateral assets generate cash flows that provide interest and principal payments to debt holders, and once those contractual requirements are met, the resulting excess funds

generated by (or with the sale of) the collateral assets are provided to the holder of the residual interest. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent cash flows will be generated and distributed. The residual interest holder absorbs these losses (as it reduces what they could receive as a residual holder) while the holders of the debt securities continue to receive interest and principal, so long as there are enough collateral cash flows to cover them. The residual holder may ultimately receive nothing, a reduced amount from original projection, or large returns, based on how the underlying collateral assets perform.

The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive ‘residual’ cash flows after all debt holders receive contractual interest and principal payments. The list below provides common characteristics in residuals, but with varying (and often changing structures), this list should not be used as rules governing whether a security reflects a residual interest. Determining whether a security reflects a residual interest or tranche for reporting purposes shall be based on the substance of the investment held rather than its legal form.

Common Characteristics of Residual Interests / Residual Security Tranches:

- Residuals often do not have contractual principal or interest.
- Residuals may have stated principal or interest, but with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- Residuals do not have credit ratings or NAIC assigned designations. Rather, they provide the subordination to support the credit quality of the typically rated debt tranches.
- Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other tranche holders receive contractual principal and interest payments.
- Frequently, there are contractual triggers that divert cash flows from the residual tranche to the debt tranches if the structure becomes stressed.

Interested Parties’ Comments:

Interested parties has been working with NAIC staff to clarify the definition in order to facilitate consistent interpretation by the industry and auditors, to avoid unintended consequences of certain equity investments being scoped into the definition of a residual when they were not intended to be in scope. We appreciate NAIC staff working with us on these clarifications and look forward to reviewing the next exposure. In addition to the redrafted exposure draft, we offer the following comments.

In reviewing the exposure, we understand that the residual definition is related to investment structures that issue debt securities created for the primary purpose of raising debt capital backed by collateral assets (ABS issuers as defined in paragraph 8 of the current bond exposure in SSAP Nos. 26R). As a result, interested parties do not believe the intent was to include the following types of investment structures:

- Private Funds (e.g., equity, debt, hedge)- that issued debt for liquidity / operating purposes rather than to raise capital backed by a discrete pool of collateral assets.
- Real Estate Funds (including REITs and JVs) (i.e., considered Issuer Credit Obligations, or “ICOs”, in the proposed bond standard)
- Non-US registered Funds (i.e., considered ICOs in the proposed bond standard)
- Other ICOs in the proposed bond definition, such as 40 Act Funds, Business Development Company, Operating Entities, and Holding Companies supported by operating companies.

The exposure currently addresses changes to *SSAP No. 48—Joint Ventures, Partnerships and Limited liability Companies*, but we also believe the definition is relevant to SSAP Nos. 26R, 43R, and 21R and should be included in those other SSAPs. Also, consideration should be given to whether the definition should also be added to SSAPs where residuals may currently be in scope, such as SSAP No. 30R (e.g., from securitizations in legal form of a corporation).

Upon adoption of the Form A, interested parties believe the guidance would be effective immediately. Interested parties will need time to consider the guidance, develop accounting policies, and identify the residuals under the new definition. As a result, we recommend an effective date of six months after the adoption by Executive (Ex) Committee.

Recommendation:

NAIC staff has been working with regulators and industry on the proposed revisions to ensure consistent reporting classification for residuals. NAIC staff recommends that the Working Group expose this agenda item, which has been expanded with an updated proposal to reflect revisions from the interim discussions and coordination. (It is NAIC staff's assessment that the intent of the definition is consistent, but the language has been clarified to ensure consistent interpretation and application.) This item is proposed to have a shortened comment deadline ending September 12.

NAIC staff does not support the industry proposal for a 6-month delay for adoption as that would go beyond year-end 2023. NAIC staff believe that having all residuals reported on the Schedule BA designated reporting line for year-end 2023 is vital to ensure that the adopted RBC sensitivity test can properly reflected. NAIC staff notes that the current focus should only move those items that were previously on Schedule BA, so it is only a reporting line change on the existing schedule. Revisions previously adopted to SSAP No. 43R specified that residuals previously captured in scope in that standard, perhaps as beneficial interests, had to be reported on the Schedule BA designated reporting lines. The shortened comment deadline intends to allow for adoption and implementation for year-end 2023.

The comment letters are included in Attachment 36 (50 pages).

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Hearing/00-08-2023-SAPWGHearingAgenda.docx>

**Statutory Accounting Principles (E) Working Group
Meeting Agenda
August 13, 2023**

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2023-14: Asset Valuation Reserve and Interest Maintenance Reserve
2. Ref #2023-15: IMR / AVR Specific Allocations
3. Ref #2023-16: Schedule BA Reporting Categories
4. Ref #2023-17: Short-Term Investments
5. Ref #2023-18: ASU 2016-19, Technical Corrections and Improvements
6. Ref #2023-19: ASU 2018-09, Codification Improvements
7. Ref #2023-20: ASU 2020-10, Codification Improvements
8. Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102
9. INT 23-02: *Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax*
10. Ref #2023-22: Actuarial Guideline 51 and Appendix A-010 Interaction

Ref #	Title	Attachment #
2023-14 (Julie)	Asset Valuation Reserve and Interest Maintenance Reserve	A – Form A

Summary:

This agenda item has been developed as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Historically, this statement has included brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although it is anticipated that this project may take time, particularly with the assessment of admittance / nonadmittance for negative IMR as a long-term concept, it is noted that interim revisions (within specific agenda items) will be proposed to ensure progress towards consistent application and address potential areas where credit losses may be reported as IMR.

Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the A/S instructions when incorporating SSAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions. The agenda item identifies discussion topics to be included in this project.

Ref #	Title	Attachment #
2023-15 (Julie)	IMR / AVR Specific Allocations	B – Form A

Summary:

This agenda item has been developed to update guidance for IMR / AVR in the Annual Statement (A/S) Instructions that currently establish specific allocation guidance. The principal concept of the IMR and AVR is that interest-related losses go to IMR, and non-interest-related losses go to AVR. This agenda is to correct instructions that appear to direct an entity to allocate non-interest-related losses to IMR rather than correctly to the AVR.

Although the presence of examples for illustration or guiding purposes are beneficial, the current annual statement instructions has permitted unintended allocations that do not reflect the intent of the principles. These have been specifically noted through inquiries to NAIC staff, particularly within the last year. NAIC staff believes these inquiries have been spurred by the discussions regarding the industry request to admit net negative IMR, therefore creating an incentive to allocate losses to IMR instead of AVR.

This agenda item will focus on the following specific allocations within the A/S instructions:

- 1) NAIC Designation Changes for Debt Securities (excluding LBSS)
- 2) Mortgage Loans

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to the A/S instructions to remove the guidance that permits the specific allocation of non-interest related losses to IMR. (Although NAIC staff believes this guidance is clarifying the original intent of IMR/AVR allocation, the revisions reflect a distinct change in practice to reduce the allocation of non-interest-related losses to the IMR.)

This agenda item is focusing solely on the specific allocation “absolutes” that currently exists in the A/S instructions to ensure that the guidance does not inadvertently permit the allocation of non-interest-related changes to the IMR. This agenda item is addressing one of the specific discussion topics noted in agenda item 2023-XX. Further revisions and assessment on other aspects of the IMR/AVR allocation, including whether gains and losses from bonds (and other investments) should be bifurcated between IMR/AVR, will be addressed in subsequent agenda items. (Revisions will subsequently captured in the SSAPs as part of the long-term project, but these revisions are proposed for immediate clarification edits in the A/S instructions as that is where guidance currently resides.)

The IMR revisions are shown below. (The agenda item also has corresponding revisions to the AVR guidance.)

IMR – Debt Securities:

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are ~~is~~ NOT different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR. Exclude any such gains (losses) exempt from the IMR.

IMR – Mortgage Loans:

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is ~~is~~ **NOT** more than 90 days past due, or
- The loan is ~~is~~ **NOT** in process of foreclosure, or
- The loan is ~~is~~ **NOT** in course of voluntary conveyance, or
- The terms of the loan have ~~is~~ **NOT** been restructured during the prior two years.

Ref #	Title	Attachment #
2023-16 (Julie)	Schedule BA Reporting Categories	C – Form A

Summary:

This agenda item has been developed to incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity’s classification as to the underlying asset characteristics as:

- Bonds / Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

** Bonds / fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification / potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- **Fixed-Income Instruments**
- **Common Stocks**
- **Real Estate**
- **Mortgage Loans**
- **Other**

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within the agenda item “Activity to Date” section revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

Ref #	Title	Attachment #
2023-17 (Julie)	Short-Term Investments	D – Form A

Summary:

This agenda item has been developed to review the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term investments* and establish principal concepts for the types of investments that should be permitted for reporting as either cash equivalents or short-term investments. This agenda item is in response to noted situations in which certain types of investments, particularly collateral loans or other Schedule BA items, are being designed specifically to meet the parameters for short-term reporting. Although revisions were previously incorporated to prevent the “rolling” of short-term items, information has been shared that some reporting entities are now effectively ending short-term collateral loan investments, only to reissue those collateral loans from other lenders in the same group (same ultimately owners) so that they can continue to qualify as short-term for reporting on Schedule DA. The effect is a continuously reporting short-term collateral loan investments in a way so that the investment in appearance is not considered ‘substantially similar’ to the investment previously held, although in effect the borrower is the same holding company group. This approach permits the company to report these investments as “Other Short-Term Investments” on Schedule DA, rather than in the designated reporting line for collateral loans. This allows companies to reduce the appearance of the collateral loans, not provide the detail that would be required for the loan is reported on Schedule BA, and potentially result in non-compliance with the SSAP No. 21 admittance requirements due to the Schedule DA reporting. Under SSAP No. 2R, paragraph 16, short-term investments are to be accounted for in the same manner as similar long-term investments. However, paragraph 17

indicates that short-term investments are admitted to the extent that they conform to the requirements of SSAP No. 2R. Although the intent of paragraph 16 is to require the same valuation and admittance requirements for short-term that exist for long-term, some reporting entities may be valuing collateral loans similar to the requirements of SSAP No. 21 but may interpret the guidance to indicate that the collateral requirements for admittance in SSAP No. 21 are not required if the investment has a short-term maturity.

In evaluating the current situation, the prior situations in which short-term investments were being continuously rolled, as well as the SSAP No. 2R guidance, it has been questioned why collateral loans and mortgage loans are included in the SSAP No. 2R guidance as named examples and whether Schedule BA investments should be permitted to be reported as wither cash equivalents (on Schedule E2) or short-term investments (on Schedule DA). For these investments, the main benefit of reporting as short-term (or cash equivalent) is the reduced RBC charge and/or potential exclusions from state investment limitations. Although NAIC designations are not required to be reported for cash equivalent or short-term investments, such designations are not required for collateral loans, mortgage loans or any Schedule BA investment. As such, excluding those items from Schedule DA will not impose a requirement for any reporting entity to obtain an NAIC designation. Considering this assessment, this agenda item proposes the exclusion of additional investment types from being reported as cash equivalents or short-term investments regardless of the maturity date of the investment at the date of acquisition.

Effectively, this agenda item and the prior revisions to exclude certain investments from SSAP No. 2R discussed as part of the bond project, will eliminate investments (except money market mutual funds and cash pooling dynamics) from being reported as cash equivalents or short-term investments unless they would qualify under *SSAP No. 26R—Bonds* as an issuer credit obligation. Such investments will then only qualify as a cash equivalent or short-term investment if they have a maturity date within 3-months (cash equivalents) or 12-months (short-term) from the date of acquisition or meet the specifics requirements for money market mutual funds or cash pooling arrangements. NAIC staff believes this scope is appropriate as investments that qualify as issuer credit obligations tend to reflect the more “traditional” investments, for which a short duration holding timeframe will most often have limited valuation swings caused from interest rate risk as well as other unknowns. Furthermore, as investments captured as issuer credit obligations in SSAP No. 26R are permitted as admitted assets without other qualifications (such as collateral or audit requirements), the ability to report as cash equivalent or short-term will not cause confusion on the applicability of such requirements in determining whether the investment should qualify as an admitted asset because it qualifies to be in scope of SSAP No. 2R.

This agenda item proposes to retain the guidance in SSAP No. 2R that prevents cash equivalent or short-term reporting for related party investments if the reporting entity does not reasonably expect to terminate the investment, the original maturity time as passed, and if the reporting entity reacquired a substantially similar investment. Investments with those characteristics will be required to be reported as long-term assets. With the limitation of eligible assets to issuer credit obligations in scope of SSAP No. 26R, NAIC staff anticipates the need for the guidance to be reduced but it could still be applicable.

The agenda item also proposes to retain the clarification that certificates of deposit do not qualify as cash equivalents or short-term deposits. This is because certificates of deposit that are less than 12 months in duration are classified as cash. Certificates of deposits that go beyond 12 months are reported as long-term bonds on Schedule D.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. These revisions are proposed to ensure that certain investment types are captured on designated Schedule BA reporting lines and to eliminate the potential to design investments to specifically qualify for short-term reporting and perhaps mask the extent of investments held or to obtain favorable reporting such as with reduced RBC, exceptions for state investment limits, admittance requirements etc., (NAIC staff notes that NAIC designations are not required for cash equivalents or short-term investments, however, the investments proposed to be excluded from cash equivalents and short-term reporting in this agenda item are not required to obtain NAIC designations.)

With the adoption consideration of the bond definition, including the edits to exclude ABS and debt securities that do not qualify as bonds from SSAP No. 2R at the 2023 Summer National Meeting, this agenda item proposes edits after reflection of the bond project changes. To be consistent with the effective date of the bond project, this agenda item proposes an effective date of Jan. 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly.

Ref #	Title	Attachment #
2023-18 (Wil)	ASU 2016-19, Technical Corrections and Improvements	E – Form A

Summary:

In December 2016, FASB issued *ASU 2016-19, Technical Corrections and Improvements*, as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2016-19 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and, as detailed in the agenda item, to expose revisions to adopt with modification *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting. The agenda item includes the detail of the revisions to be exposed, and also includes a table, beginning on page six, that details the rationale for which guidance is recommended for inclusion and which was recommended for rejection. Unless noted otherwise, we recommend that all other amendments made within ASU 2016-10, as detailed in the agenda item, be rejected for statutory accounting in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Ref #	Title	Attachment #
2023-19 (Wil)	ASU 2018-09, Codification Improvements	F – Form A

Summary:

In July 2018, FASB issued *ASU 2018-09, Codification Improvements*, as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2018-09 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to reject *ASU 2018-09 Codification Improvements* for statutory accounting on Appendix D as not applicable to statutory accounting. This guidance is not applicable as the changes made by ASU 2018-09, as detailed in the agenda item, are to guidance which has been rejected for statutory accounting.

Ref #	Title	Attachment #
2023-20 (Wil)	ASU 2020-10, Codification Improvements	G – Form A

Summary:

In October 2020, FASB issued *ASU 2020-10 Codification Improvements*, that improve the consistency of the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The changes made by the ASU either move disclosure guidance to the Disclosure Section of the codification or add codification references to direct readers to the disclosure section, and this ASU does not provide any relevant new guidance.

Recommendation:

NAIC staff recommends 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 2020-10, Codification Improvements* as not applicable to statutory accounting. This guidance is not applicable as it pertains to editorial changes and codification paragraphs which were not previously adopted for statutory accounting.

Ref #	Title	Attachment #
2023-21 (Jake)	Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102	H – Form A

Summary:

On December 18, 2012, the Statutory Accounting Principles (E) Working Group adopted *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, which replaced *SSAP No. 14—Postretirement Benefits Other Than Pensions* and *SSAP No. 89—Pensions*. The adopted SSAPs included transition guidance that expired after 10 years. This agenda item intends to remove the unneeded transition guidance from SSAP No. 92 and SSAP No. 102.

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. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the ten-year effective period for that transition. The recommended changes are detailed in the agenda item.

Ref #	Title	Attachment #
INT 23-02 (Robin)	<i>INT 23-02T: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax</i>	I – INT

Summary:

This proposed new interpretation, *INT 23-02-Third Quarter 2023 Corporate Alternative Minimum Tax*, is to provide temporary guidance for the third quarter 2023 reporting for the corporate alternative minimum tax (CAMT). The Working Group has previously adopted *INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax* which requires disclosure of if the reporting

entity is an applicable entity but does not require accrual of CAMT payable amounts, noting that a reasonable estimate is not possible.

The Inflation Reduction Act was passed in August 2022, and it provides that the CAMT is effective beginning with the 2023 tax year.

The proposed interpretation recommends that for the third quarter 2023, that reporting entities should disclose whatever information is available regarding their applicable reporting entity status. If the reporting entity is able to make a reasonable estimate regarding the CAMT 2023 liabilities, such an estimate should be disclosed for third quarter 2023. If a reasonable estimate is not possible because of pending material information, the fact that a reasonable estimate is not feasible should be disclosed.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this INT 23-02 for comment. An accelerated comment deadline of Sept. 12, 2023, is proposed to allow for adoption prior to the end of September.

Voting note: The proposed INT 23-XX for third quarter 2023 provides overrides to existing SSAP guidance, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

Ref #	Title	Attachment #
2023-22 (Robin)	Actuarial Guideline 51 and Appendix A-010 Interaction	J – Form A

Summary:

This agenda item addresses the February 23 request from the Financial Reporting and Solvency Committee of the Health Practice Council of the American Academy of Actuaries, to the Long-Term Care Actuarial (B) Working Group and to the Statutory Accounting Principles (E) Working Group which requested clarifications regarding some observed diversity in practice across issuers of long-term care insurance with regard to how the guidance in *Actuarial Guideline LI: The application of Asset Adequacy Testing to Long Term Care Insurance Reserves (AG 51)*, specifically Section 4.C, on determining when additional reserves may be necessary, interacts with existing guidance on accident and health insurance reserve adequacy, in *SSAP No. 54R—Individual and Group Accident and Health Contracts*, paragraphs 12 and 24 and Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*, paragraph 26.

The Academy referenced a Milliman survey which provided examples of the diversity in practice that has been observed. The fundamental question is regarding whether gross premium valuation only, cash flow testing only or both cash flow testing and gross premium valuation are required.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose clarifying revisions and an illustration to SSAP No. 54R to clarify that gross premium valuation (under A-010) and cash flow testing (under AG 51) are both required if indicated. In addition, the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group should receive formal notice of the exposure.

The recommendation is based on the following key points:

1. SSAP No. 54R, paragraph 12 references both Appendix A-010 and the Actuarial Guidelines in Appendix

- C. SSAP No. 54R, paragraph 24 explicitly notes the A-010 requirements for a prospective gross premium valuation as the ultimate test for reserve adequacy.
2. Appendix A-010 is based on a widely adopted NAIC model law 10 *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*. Appendix A-010 and Model 10 require that that an entity’s A&H reserves, in total, need to be adequate. The front of Appendix C notes that the Actuarial Guidelines “The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance.”
 3. The adoption of the AG -51 did not change the provisions of the Model Law 10 or Appendix A-010. The provisions of the model law and Appendix A-010 both require health insurance reserves to be sufficient from a gross premium valuation standpoint on their own.
 - a. Paragraph 26 of Appendix A-010 reads, in part, “...a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer’s health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy.”
 - b. Nothing in AG 51 explicitly amends the requirement from Appendix A-010 that an entity’s A&H reserves, in total, need to be adequate. (Note that amending the Model #10 would require going through the NAIC model law procedures, therefore, until such a process is undertaken.)
 - c. AG 51 is not explicitly referenced within the *Valuation Manual* Section VM- 25, “Health Insurance Reserves Minimum Reserve Requirements,” as a source of guidance on minimum reserve requirements.
 4. AG 51 Section 4.C. provides an additional long term care reserves adequacy cash flow test which allows aggregation. The AG 51 cash flow testing is in addition to the requirements of A-010, it does not replace the gross premium valuation requirements of A-010.

ANY OTHER MATTERS

a. Review of U.S. GAAP Exposures (Attachment K)

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

- b. Comment Deadline** for Exposures is **September 29, 2023**, for all exposures except INT 23-02T (CAMT 3rd quarter) and agenda item 2023-12: Residuals in SSAP No. 48 Investments (Hearing Agenda) which have a comment deadline of **September 12, 2023**.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National_Meetings/A_National_Meeting_Materials/2023/8-13-23_Summer_National_Meeting/Meeting/0-08-2023_SAPWG_Meeting_Agenda.docx