Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: Conforming Repurchase Agreements**

**Check (applicable entity):**

P/C Life Health

Modification of Existing SSAP

New Issue or SSAP

Interpretation

**Description of Issue:** This agenda item has been developed in response to the January 2024 referral received from the Life Risk-Based Capital (E) Working Group in response to the American Council of Life Insurers (ACLI) request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs. As detailed within their ACLI-sponsored life RBC proposal, the request is to incorporate a concept of “conforming programs” for repurchase agreements, with the collateral attributed to these programs assigned a 0.2% (.0020) factor instead of a 1.26% (0.0126%) factor. Pursuant to the Statutory Accounting Principles (E) Working Group referral response dated Feb. 8, 2024, it was identified that the statutory accounting and reporting for securities lending and repurchase agreements are currently different. As a result, the SAPWG requested that the LRBCWG defer consideration of the proposal until the SAPWG has time to assess the differences and consider converging revisions (if deemed appropriate) before modifying the RBC formula.

This agenda item identifies initial statutory differences between securities lending and repurchase agreements as well as other items that should be reviewed for potential clarification on the “conforming agreement” securities lending concept currently captured in the general interrogatories. These items are summarized as follows:

* Documentation of Securities Lending Collateral: Securities lending collateral is detailed in Schedule DL: Securities Lending Collateral Asset for 1) collateral that an entity has received and reinvested and 2) collateral received that the entity has not reinvested but for which the entity has the ability to sell or repledge. This schedule currently does not include repurchase agreement collateral. As detailed within the ACLI proposal, the ACLI identifies that repurchase agreements and securities lending transactions are similar forms of short-term collateralized funding for life insurers, with counterparties reflecting the key difference between the two funding structures. With these similarities, consistent reporting of the collateral may be appropriate to ensure financial regulators receive comparable information regardless of the legal form of the agreement. Furthermore, a review of year-end 2022 data identified that securities associated with securities lending transactions are declining, whereas securities associated with repurchase agreements are increasing.
* Blanks Reporting Revisions: Blanks reporting revisions will be required to incorporate a new general interrogatory to capture repurchase collateral from conforming programs and for that data to be pulled directly into the RBC formula. Additionally, the current guidance on what reflects a “conforming program” for securities lending is captured in the RBC instructions. To ensure consistency in reporting, consideration should occur on incorporating the guidance into the annual statement instructions. This would ensure that financial statement preparers, who may not have the RBC instructions, have the guidelines to properly assess whether a program should be classified as conforming or nonconforming.
* Assessment of Conforming Provisions: From a review of year-end 2022 financial statements, very few reporting entities reported any securities lending collateral as part of a nonconforming program. Although the instructions identify what is permitted as “acceptable collateral,” from a review of the collateral reported on Schedule DL, reporting entities are classifying programs as conforming even though the reported Schedule DL collateral is outside the parameters of acceptable collateral. From initial assessments, it appears that there may be interpretation differences on whether the “acceptable collateral” requirement encompasses only the collateral received from the counterparty and not what the reporting entity currently holds due to reinvestment of the original collateral. From this information, clarification of the intent of the guidelines and what is conforming or nonconforming is proposed to be considered. It is also noted that the provisions to separate conforming and nonconforming programs in the RBC formula was incorporated before the great financial crisis, and significant changes to the accounting and reporting (Schedule DL) were incorporated because of how securities lending transactions impacted certain reporting entities during the crisis. For example, prior to Schedule DL, most of the security lending collateral was off-balance sheet, and now only collateral that an entity cannot sell or repledge is off-balance sheet. From a review of the detail, reporting entities are combining any off-balance sheet (which is limited) with what is captured on Schedule DL for inclusion in the “conforming program” securities lending general interrogatory.

**Existing Authoritative Literature:**

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

*The guidance in SSAP No. 103R provides guidance for sales and secured borrowings and is extensive. Only the guidance for secured borrowings is included below. Most securities lending and repurchase transactions are accounted for as secured borrowings and not sales. Also, the guidance below includes information for repurchase and reverse repurchase agreements but does not include the guidance for repurchase financings or dollar-repurchase agreements. Lastly, the guidance in SSAP No. 103R was structured to mirror the issuance of U.S. GAAP guidance in FAS 166, so has the broad concepts, followed by disclosures, and then specific application guidance. For ease of review, the quoted segments below have been grouped first with the guidance followed by disclosures.*

**Secured Borrowing**

1. If a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset does not meet the conditions for a sale in paragraph 8, or if a transfer of a portion of an entire financial asset does not meet the definition of a participating interest (paragraph 7), the transferor and transferee shall account for the transfer as a secured borrowing with pledge of collateral (paragraph 19). The transferor shall continue to report the transferred financial assets in its statement of financial position with no change in their measurement (that is, basis of accounting).

**Secured Borrowings and Collateral**

1. A debtor may grant a security interest in certain assets to a lender (the secured party) to serve as collateral for its obligation under a borrowing, with or without recourse to other assets of the debtor. An obligor under other kinds of current or potential obligations, for example, interest rate swaps, also may grant a security interest in certain assets to a secured party. If collateral is transferred to the secured party, the custodial arrangement is commonly referred to as a pledge. Secured parties sometimes are permitted to sell or repledge (or otherwise transfer) collateral held under a pledge. The same relationships occur, under different names, in transfers documented as sales that are accounted for as secured borrowings (paragraph 14). The accounting for noncash[[1]](#footnote-2) collateral by the debtor (or obligor) and the secured party depends on whether the secured party or its agent has the right to sell or repledge the collateral and on whether the debtor has defaulted. (Paragraphs 85-121 provide application guidance for securities lending, securities borrowing and repurchase agreements.)
   1. If the secured party (transferee) or its agent has the right by contract or custom to sell or repledge the collateral, then the debtor (transferor) shall report that asset in its balance sheet.
   2. If the secured party (transferee) sells collateral pledged to it, it shall recognize the proceeds from the sale and its obligation to return the collateral. The sale of the collateral is a transfer subject to the provisions of this statement.
   3. If the debtor (transferor) defaults under the terms of the secured contract and is no longer entitled to redeem the pledged asset, it shall derecognize the pledged asset, and the secured party (transferee) shall recognize the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognize its obligation to return the collateral.
   4. Except as provided in paragraph 19.c., the debtor (transferor) shall continue to carry the collateral as its asset, and the secured party (transferee) shall not recognize the pledged asset.
2. Reporting entities may enter into certain transactions that require the granting of a security interest in certain assets to another party to serve as collateral for their performance under a contract. If the assets pledged are recorded as admitted assets under *SSAP No. 4*—*Assets and Nonadmitted Assets* and *INT 01-31: Assets Pledged as Collateral* and are not impaired under the provisions of *SSAP No. 5R*—*Liabilities, Contingencies and Impairments of Assets*, the pledging entity records the collateral as an admitted asset until committing a contract default that has not been cured in accordance with the contract provisions. At the time of an uncured default, the provisions of paragraph 19 shall be used to determine the appropriate accounting treatment for the collateral. If the secured party utilizes collateral to offset all or a portion of the liability owed by the pledging entity as a result of the default, then the collateral amount utilized to offset the liability shall be removed from the balance sheet. At the same time, the amount of the liability that was offset shall be removed from the balance sheet since that obligation has been satisfied through the secured party’s utilization of that collateral. To the extent that an uncured default remains without the secured party utilizing the collateral to offset the obligation, the pledging insurer shall only record an admitted asset for the amount of collateral that it can redeem.

**Securities Lending Transactions**

1. Securities lending transactions are generally initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer’s failure to deliver securities sold. Securities lending transactions typically extend less than one year. Transferees (borrowers) of securities generally are required to provide collateral to the transferor (lender) of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities borrowed. If the collateral is cash, the transferor typically earns a return by investing that cash at rates higher than the rate paid or rebated to the transferee. If the collateral is other than cash, the transferor typically receives a fee. Securities custodians or other agents commonly carry out securities lending activities on behalf of clients. Because of the protection of collateral (typically valued daily and adjusted frequently for changes in the market price of the securities transferred) and the short terms of the transactions, most securities lending transactions in themselves do not impose significant credit risks on either party. Other risks arise from what the parties to the transaction do with the assets they receive. For example, investments made with cash collateral impose market and credit risks on the transferor.
2. If the criteria conditions in paragraph 8 (sales criteria) are met, securities lending transactions shall be accounted for:
   1. By the transferor as a sale of the “loaned” securities for proceeds consisting of the cash collateral[[2]](#footnote-3) and a forward repurchase commitment.
   2. By the transferee as a purchase of the “borrowed” securities in exchange for the collateral and a forward resale commitment. During the term of that agreement, the transferor has surrendered control over the securities transferred and the transferee has obtained control over those securities with the ability to sell or transfer them at will. In that case, creditors of the transferor have a claim only to the “collateral” and the forward repurchase commitment.
3. Many securities lending transactions are accompanied by an agreement that entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity under which the transferor maintains effective control over those financial assets (paragraphs 51-52). Those transactions shall be accounted for as secured borrowings, in which cash (or securities that the holder or its agent is permitted by contract or custom to sell or repledge) received as collateral is considered the amount borrowed, the securities loaned are considered pledged as collateral against the cash or securities borrowed and reclassified as set forth in paragraph 19.a., and any rebate paid to the transferee of securities is interest on the cash or securities the transferor is considered to have borrowed.
4. The transferor of securities being “loaned” accounts for cash received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The cash received shall be recognized as the transferor’s asset – as shall investments made with that cash, even if made by agents or in pools with other securities lenders – along with the obligation to return the cash. If securities that may be sold or repledged are received, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for cash received.
5. The transferor of securities being “loaned” accounts for collateral received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The collateral received shall be recognized as the transferor’s asset – as shall investments made with that collateral, even if made by agents or in pools with other securities lenders – along with the obligation to return the collateral. If securities that may be sold or repledged are received by the transferor or its agent, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for collateral received. Collateral which may be sold or repledged by the transferor or its agent is reflected on balance sheet, along with the obligation to return the asset[[3]](#footnote-4). Collateral received which may not be sold or repledged by the transferor or its agent is off balance sheet[[4]](#footnote-5). For collateral on the balance sheet, the reporting is determined by the administration of the program.
6. Securities lending programs where the collateral received by the reporting entity’s unaffiliated agent that can be sold or repledged is reported on the balance sheet. The collateral received and reinvestment of that collateral by the reporting entity’s unaffiliated agent shall be reflected as a one-line entry on the balance sheet (Securities Lending Collateral) and a detailed schedule will be required each quarter and at year-end to list the description of the collateral asset. This description shall include the NAIC designation, fair value; book adjusted carrying value and maturity date. A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities).
7. Securities lending programs where the collateral received by the reporting entity that can be sold or repledged is reported on the balance sheet. If the reporting entity is the administrator of the program, then, the collateral received and any reinvestment of that collateral is reported with the invested assets of the reporting entity based on the type of investment (i.e. bond, common stock, etc.). A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities).
8. Securities lending programs where the collateral received by the reporting entity’s affiliated agent can report using either one-line reporting (paragraph 89.a.) or investment schedule reporting (paragraph 89.b.).
9. Reinvestment of the collateral by the reporting entity or its agent shall follow the same impairment guidance as other similar invested assets reported on the balance sheet. Any fees received by the transferor for loaning the securities shall be recorded as miscellaneous investment income.

### Securities Lending Transactions – Collateral Requirements[[5]](#footnote-6)

1. The reporting entity shall receive collateral having a fair value as of the transaction date at least equal to 102 percent of the fair value of the loaned securities at that date. If at any time the fair value of the collateral received from the counterparty is less than 100 percent of the fair value of the loaned securities, the counterparty shall be obligated to deliver additional collateral by the end of the next business day, the fair value of which, together with the fair value of all collateral then held in connection with the transaction at least equals 102 percent of the fair value of the loaned securities. If the collateral received from the counterparty is less than 100 percent at the reporting date, the difference between the actual collateral and 100 percent will be nonadmitted. Collateral value is measured and compared to the loaned securities in aggregate by counterparty.
2. In the event that foreign securities are loaned and the denomination of the currency of the collateral is other than the denomination of the currency of the loaned foreign securities, the amount of collateral shall be at least equal to 105 percent of the fair value of the loaned securities at that date. If at any time the fair value of the collateral received from the counterparty is less than 102 percent of the fair value of the loaned securities, the reporting entity must obtain additional collateral by the end of the next business day, the fair value of which together with the fair value of all collateral then held in connection with the transaction at least equals 105 percent of the fair value of the loaned securities. If the collateral received from the counterparty is less than 100 percent at the reporting date, the difference between the actual collateral and 100 percent will be nonadmitted. Collateral value is measured and compared to the loaned securities in aggregate by counterparty.

### Securities Borrowing Transactions – Sale Criteria is Not Met (Secured Borrowing)

1. In addition to being the transferor of securities being loaned and receiving collateral under a securities lending arrangement, reporting entities may be a transferee of borrowed securities, and provide collateral under a securities borrowing arrangement.
2. A transferee that sells borrowed securities shall recognize the proceeds from the sale of the securities and an obligation, at fair value, to return the borrowed securities to the transferor. If cash proceeds from the sale of borrowed securities are invested into other assets, or if non-cash proceeds are received from the sale, the assets acquired shall be shown as assets on the reporting entity’s (transferee’s) financial statements and accounted and reported in accordance with the SSAP for the type of assets acquired. For all instances in which the transferee sells borrowed securities, the reporting entity shall designate restricted assets equivalent to the fair value of the obligation to return the borrowed securities to the transferor.
3. A reporting entity transferee that borrows securities captured under this section (sale criteria is not met) and uses the borrowed securities to settle a short sale transaction shall eliminate the contra-asset recognized under the short sale (paragraph 83) and establish a liability to return the borrowed security. The liability to return the borrowed security shall remain on the books until the reporting entity acquires the security to return to the transferor. The accounting/reporting for the short sale and the secured borrowing transaction shall be separately reflected within the financial statements. As such, use of the borrowed asset for the short sale would be similar to recognizing “proceeds” from selling a borrowed asset, as such, if the borrowed asset is used to settle a short sale, the reporting entity shall recognize the borrowed asset and the obligation to return the asset under the secured borrowing agreement until the asset has been returned under the secured borrowing transaction. and recognize an obligation, at fair value, to return the borrowed securities.

### Repurchase Agreements and "Wash Sales"

1. Government securities dealers, banks, other financial institutions, and corporate investors commonly use repurchase agreements to obtain or use short-term funds. Under those agreements, the transferor ("repo party") transfers a security to a transferee ("repo counterparty" or "reverse party") in exchange for cash[[6]](#footnote-7) and concurrently agrees to reacquire that security at a future date for an amount equal to the cash exchanged plus a stipulated "interest" factor. Repurchase agreements, reverse repurchase agreements and dollar repurchase agreements meet the definition of assets as defined in SSAP No. 4—Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement.
2. Repurchase agreements can be affected in a variety of ways. Some repurchase agreements are similar to securities lending transactions in that the transferee or its agent has the right to sell or repledge the securities to a third party during the term of the repurchase agreement. In other repurchase agreements, the transferee does not have the right to sell or repledge the securities during the term of the repurchase agreement. For example, in a tri-party repurchase agreement, the transferor transfers securities to an independent third-party custodian that holds the securities during the term of the repurchase agreement. Also, many repurchase agreements are for short terms, often overnight, or have indefinite terms that allow either party to terminate the arrangement on short notice. However, other repurchase agreements are for longer terms, sometimes until the maturity of the transferred financial asset. Some repurchase agreements call for repurchase of securities that need not be identical to the securities transferred.
3. If the conditions in paragraph 8 are met, the transferor shall account for the repurchase agreement as a sale of financial assets and a forward repurchase commitment, and the transferee shall account for the agreement as a purchase of financial assets and a forward resale commitment. Other transfers that are accompanied by an agreement to repurchase the transferred financial assets that may be accounted for as sales include transfers with agreements to repurchase at maturity. (Repurchase financing is addressed in paragraphs 105-110.)
4. Furthermore, "wash sales" that previously were not recognized if the same financial asset was purchased within 30 days before or after the sale shall be accounted for as sales under this statement. Unless there is a concurrent contract to repurchase or redeem the transferred financial assets from the transferee, the transferor does not maintain effective control over the transferred financial assets.
5. As with securities lending transactions, under many agreements to repurchase transferred financial assets before their maturity the transferor maintains effective control over those financial assets. Repurchase agreements that do not meet all the conditions in paragraph 8 shall be treated as secured borrowings. Fixed-coupon and dollar-roll repurchase agreements, and other contracts under which the securities to be repurchased need not be the same as the securities sold, qualify as borrowings if the return of substantially the same (paragraph 52) securities as those concurrently transferred is assured. Therefore, those transactions shall be accounted for as secured borrowings by both parties to the transfer.
6. If a transferor has transferred securities to an independent third-party custodian, or to a transferee, under conditions that preclude the transferee from selling or repledging the assets during the term of the repurchase agreement (as in most tri-party repurchase agreements), the transferor has not surrendered control over those assets.

**Repurchase Agreements**

1. Repurchase agreements are defined as agreements under which a reporting entity sells securities and simultaneously agrees to repurchase the same or substantially the same securities at a stated price on a specified date. For securities to be substantially the same, the criteria defined in paragraph 52 must be met, and for mortgage-backed securities excluding mortgage pass-through securities, the projected cash flows of the securities must be substantially the same under multiple scenario prepayment assumptions.
2. For repurchase agreements that are accounted for as collateralized borrowings in accordance with paragraph 100 of this statement, the underlying securities shall continue to be accounted for as an investment owned by the reporting entity. The proceeds from the sale of the securities shall be recorded as a liability, and the difference between the proceeds and the amount at which the securities will be subsequently reacquired shall be reported as interest expense, calculated on the straight-line method or the scientific interest (constant yield) method, over the term of the agreement.
3. Reporting entities generally take possession of the underlying collateral under repurchase agreements and in many cases may obtain additional collateral when the estimated fair value of such securities falls below their current contract value. However, to the extent that the current fair value of the collateral is less than the recorded amount, the shortfall shall reduce the admitted asset value of the repurchase agreement.

### Reverse Repurchase Agreements

1. Reverse repurchase agreements are defined as agreements under which a reporting entity purchases securities and simultaneously agrees to resell the same or substantially the same securities at a stated price on a specified date. For securities to be substantially the same, the criteria defined in paragraph 52 must be met, and for mortgage-backed securities excluding mortgage pass-through securities, the projected cash flows of the securities must be substantially the same under multiple scenario prepayment assumptions.
2. For reverse repurchase agreements that are accounted for as collateralized lendings in accordance with paragraph 100 of this statement, the underlying securities shall not be accounted for as investments owned by the reporting entity. The amount paid for the securities shall be reported as a short-term investment, and the difference between the amount paid and the amount at which the securities will be subsequently resold shall be reported as interest income, calculated on the straight-line method or the scientific interest (constant yield) method, over the term of the agreement.

### Collateral Requirements – Repurchase and Reverse Repurchase Agreements[[7]](#footnote-8)

1. The collateral requirements for repurchase and reverse repurchase agreements are as follows:

Repurchase Transaction

1. The reporting entity shall receive collateral having a fair value as of the transaction date at least equal to 95 percent of the fair value of the securities transferred by the reporting entity in the transaction as of that date. If at any time the fair value of the collateral received from the counterparty is less than 95 percent of the fair value of the securities so transferred, the counterparty shall be obligated to deliver additional collateral by the end of the next business day the fair value of which, together with the fair value of all collateral then held in connection with the transaction, at least equals 95 percent of the fair value of the transferred securities. If the collateral is less than 95 percent at the reporting date, the difference between the actual collateral and 95 percent will be nonadmitted.

Reverse Repurchase Transaction

1. The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at any time the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price.

**Disclosures**

*(Disclosures are detailed in paragraph 28 of SSAP No. 103R. Only relevant subparagraphs are reflected.)*

1. A reporting entity shall disclose the following[[8]](#footnote-9):
2. For Repurchase and Reverse Repurchase Agreements:
3. If the entity has entered into repurchase or reverse repurchase agreements, information regarding the company policy or strategies for engaging in repo programs, policy for requiring collateral, as well as whether transactions have been accounted for as secured borrowings or as sale transactions. This disclosure shall include the terms of reverse repurchase agreements whose amounts are included in borrowing money. The following information shall be disclosed by type of agreement:
4. Whether repo agreements are bilateral and/or tri-party trades;
5. Maturity time frame divided by the following categories: open or continuous term contracts for which no maturity date is specified, overnight, 2 days to 1 week, from 1 week to 1 month, greater than 1 month to 3 months, greater than 3 months to 1 year, and greater than 1 year[[9]](#footnote-10);
6. Aggregate narrative disclosure of the fair value of securities sold and/or acquired that resulted in default. (This disclosure is not intended to capture “failed trades”, which are defined as instances in which the trade did not occur as a result of an error and was timely corrected. Rather, this shall capture situations in which the non-defaulting party exercised their right to terminate after the defaulting party failed to execute.)
7. For repurchase transactions accounted for as secured borrowings[[10]](#footnote-11), the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
8. Fair value of securities sold. (Book adjusted carrying value shall be provided as an end balance only.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with identification of nonadmitted assets. Although legally sold as a secured borrowing, these assets are still reported by the insurer and shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.
9. Cash collateral and the fair value of security collateral (if any) received. This information is required in the aggregate and by type of security categorized by NAIC designation with identification of collateral securities received that do not qualify as admitted assets.
   * + - 1. For collateral received, aggregate allocation of the collateral by the remaining contractual maturity of the repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral received, including the impact arising changes in the fair value of the collateral received and/or the provided security and how those risks are managed.
         2. For cash collateral received that has been reinvested, the total reinvested cash and the aggregate amortized cost and fair value of the invested asset acquired with the cash collateral. This disclosure shall be reported by the maturity date of the invested asset: under 30 days, 60 days, 90 days, 120 days, 180 days, less than 1 year, 1-2 years, 2-3 years and greater than 3 years. To the extent that the maturity dates of the liability (collateral to be returned) does not match the invested assets, the reporting entity shall explain the additional sources of liquidity to manage those mismatches.
10. Liability recognized to return cash collateral, and the liability recognized to return securities received as collateral as required pursuant to the terms of the secured borrowing transaction.
11. For reverse repurchase transactions accounted for as secured borrowings[[11]](#footnote-12), the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
12. Fair value of securities acquired. This information shall be reported in the aggregate, and by type of security categorized by NAIC designation, with identification of whether acquired assets would not qualify as admitted assets.
13. Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall identify the book adjusted carrying value of any nonadmitted securities provided as collateral. For collateral pledged, the aggregate allocation of the collateral by the remaining contractual maturity of the reverse-repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.
14. Recognized receivable for the return of collateral. (Generally cash collateral, but including securities provided as collateral as applicable under the terms of the secured borrowing transaction. Receivables are not recognized for securities provided as collateral if those securities are still reported as assets of the reporting entity.)
15. Recognized liability to return securities acquired under the reverse-repurchase agreement as required pursuant to the secured borrowing transaction. (Generally, a liability is required if the acquired securities are sold.)
16. For repurchase transactions accounted for as a sale[[12]](#footnote-13), the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
17. Fair value of securities sold (derecognized from the financial statements). (Book adjusted carrying value shall be provided as an end balance only, reflecting the amount derecognized from the sale transaction.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with information on the book adjusted carrying value of nonadmitted assets sold.
18. Cash and the fair value of securities (if any) received as proceeds and recognized in the financial statements. This information is required in the aggregate and by type of security categorized by NAIC designation, with identification of received assets nonadmitted in the financial statements. All securities received shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with SSAP No. 1, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.
19. The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction.
20. For reverse repurchase transactions accounted for as sale[[13]](#footnote-14), the maximum amount and end balance as of each reporting period (quarterly and annual):
21. Fair value of securities acquired and recognized on the financial statements. (Book adjusted carrying value shall be provided as an end balance only.) This information shall be reported in the aggregate, and by type of security categorized by NAIC designation. The disclosure also requires the book adjusted carrying value of nonadmitted assets acquired.
22. Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall also identify whether any nonadmitted assets were provided as collateral (derecognized from the financial statements).
23. The forward resale commitment recognized (stated repurchase price) to sell the acquired securities.
24. Collateral:
25. If the entity has entered into securities lending transactions, its policy for requiring collateral or other security and the fair value of the loaned security;
26. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 19.a., the carrying amounts and classifications of both those assets and associated liabilities as of the date of the latest statement of financial position presented, including qualitative information about the relationship(s) between those assets and associated liabilities. For example, if assets are restricted solely to satisfy a specific obligation, the carrying amounts of those assets and associated liabilities, including a description of the nature of restrictions placed on the assets, shall be disclosed.
27. If the entity or its agent has accepted collateral that it is permitted by contract or custom to sell or repledge, the fair value as of the date of each statement of financial position presented of that collateral and of the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral. Additionally, the reporting entity shall disclose the aggregate amount of contractually obligated open collateral positions (aggregate amount of securities at current fair value or cash received for which the borrower may request the return of on demand) and the aggregate amount of contractually obligated collateral positions under 30-day, 60-day, 90-day, and greater than 90-day terms.
28. If the entity has accepted collateral that it is not permitted by contract or custom to sell or repledge, provide detail on these transactions, including the terms of the contract, and the current fair value of the collateral.
29. For all securities lending transactions, disclose collateral for transactions that extend beyond one year from the reporting date; and
30. For securities lending transactions administered by an affiliated agent in which “one-line” reporting (paragraph 89.a.) of the reinvested collateral per paragraph 89.c. is optional, at the discretion of the reporting entity, disclose the aggregate value of the reinvested collateral which is “one line” reported and the aggregate value of items which are reported in the investment schedules (paragraph 89.b.). Identify the rationale between the items which are one line reported and those that are investment schedule reported and if the treatment has changed from the prior period and
31. For securities lending transactions, include separately, the amount of any loaned securities within the separate account and if the policy and procedures for the separate account differ from the general account.
32. The reporting entity shall provide the following information by type of program (securities lending or dollar repurchase agreement) with respect to the reinvestment of the cash collateral and any securities which it or its agent receives as collateral that can be sold or repledged.
33. The aggregate amount of the reinvested cash collateral (amortized cost and fair value). Reinvested cash collateral shall be broken down by the maturity date of the invested asset – under 30 days, 60 days, 90 days, 120 days, 180 days, less than 1 year, 1-2 years, 2-3 years and greater than 3 years.
34. To the extent that the maturity dates of the liability (collateral to be returned) does not match the invested assets, the reporting entity shall explain the additional sources of liquidity to manage those mismatches.

Blanks/Notes Reporting – Securities Lending: *(Only data-captured notes included)*

* Schedule DL – Part 1: Securities Lending Collateral Assets: This schedule includes collateral currently held as part of a securities lending program administered by the reporting entity’s agent that can be sold or repledged. This is currently held collateral, meaning original collateral if still in original form received or the new invested asset resulting from the disposal and/or reinvestment of the original collateral. This collateral reported on DL -Part 1 is not reported on the specific investment schedules, but is captured on the assets page, line 10.
* Schedule DL – Part 2: Securities Lending Collateral Assets: This schedule includes collateral currently held as part of a securities lending program administered by the reporting entity that can be sold or repledged. This is currently held collateral, meaning original collateral if still in original form received or the new invested asset resulting from the disposal and/or reinvestment of the original collateral. This collateral reported on DL -Part 2 should be reported on the specific investment schedules.
* Note 5E(3): Aggregate fair value of securities or cash received that a borrower may request on demand (open positions) and the amount of obligated positions under 30-day, 60-day, 90-day and greater than 90-day terms.
* Note 5E(5): Aggregated amount of the reinvested cash collateral (amortized cost and fair value) divided by the maturity date of the invested asset – under prescribed timeframes.
* Note 5E(7): Collateral for transactions that extend beyond one year from the reporting date.

Notes Disclosure – Repurchase Transactions:

* Note 5F – Repurchase Agreement Transactions Accounted for as Secured Borrowings: This note disclosure includes items noted below, but it does not include details of current collateral held.
  + Fair value of aggregate securities sold and by type of security / NAIC designation.
  + Cash collateral and fair value of security collateral received in aggregate and by type of security / NAIC designation.
  + Aggregate allocation of collateral by remaining contractual maturity.
  + Total of reinvested cash collateral with amortized cost and fair value of the asset acquired with the cash collateral by maturity date of the invested asset.
  + Liability to return cash collateral and liability to return securities received as collateral pursuant to the terms of the secured borrowing transaction.

Blanks – General Interrogatories:

*Note – Lines 25.04 and 25.05 include the securities lending conforming and nonconforming programs. All other restricted assets, including repurchase agreements, are detailed in lines 26.21-26.32.*

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| **INVESTMENT** | | | | |
|  | |  | | |
| 25.01 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 25.03) | | Yes [ ] No [ ] | | |
| 25.02 If no, give full and complete information, relating thereto | |  |
| 25.03 For securities lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided) | |  |
| 25.04 For the reporting entity’s securities lending program, report amount of collateral for conforming programs as outlined in the Risk-Based Capital Instructions. | | $ |
| 25.05 For the reporting entity’s securities lending program, report amount of collateral for other programs. | | $ |
| 25.06 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? | | Yes [ ] No [ ] N/A [ ] |
| 25.07 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? | | Yes [ ] No [ ] N/A [ ] |
| 25.08 Does the reporting entity or the reporting entity’s securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? | | Yes [ ] No [ ] N/A [ ] |
| 25.09 For the reporting entity’s securities lending program, state the amount of the following as of December 31 of the current year: | |  |
| 25.091 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 | | $ |
| 25.092 Total book/adjusted carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 | | $ |
| 25.093 Total payable for securities lending reported on the liability page | | $ |
| 26.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 25.03). | | Yes [ ] No [ ] |
| 26.2 If yes, state the amount thereof at December 31 of the current year:  26.21 Subject to repurchase agreements  26.22 Subject to reverse repurchase agreements  26.23 Subject to dollar repurchase agreements  26.24 Subject to reverse dollar repurchase agreements  26.25 Placed under option agreements  26.26 Letter stock or securities restricted as to sale – excluding FHLB Capital Stock  26.27 FHLB Capital Stock  26.28 On deposit with states  26.29 On deposit with other regulatory bodies  26.30 Pledged as collateral – excluding collateral pledged to an FHLB  26.31 Pledged as collateral to FHLB – including assets backing funding agreements  26.32 Other | | $  $  $  $  $  $  $  $  $  $  $  $ |
| 26.3 For category (26.26) provide the following: | |  |

|  |  |  |
| --- | --- | --- |
| 1 | 2 | 3 |
| Nature of Restriction | Description | Amount |
|  |  |  |
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RBC Instructions – Securities Lending Conforming Agreements:

* LR017: Off-Balance Sheet and Other Items Instructions:

Line (1) Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
   1. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.
   2. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
   3. Approved borrower lists and loan limits to allow for adequate diversification.
   4. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).
   5. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.
   6. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
3. A binding securities lending agreement (standard “Master Lending Agreement” from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories, Part 1, Line 24.04 of the annual statement should be included on Line (1).

Line (2) Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 24.05 and included in Line (2).

Staff Note: From a review 2022 financials and comparing the information on Schedule DL, collateral reported with NAIC designations below NAIC 1 and not within the other permitted parameters detailed as acceptable collateral under number 4 above is being reported as part of a “conforming program” Also, these RBC instructions are detailed within the “Off-Balance Sheet” RBC schedule, but the majority of security lending collateral is captured on balance sheet, either in the direct investment schedules or on line 10 of the asset page. There is no other location in the general interrogatory to report securities lending collateral, so if the intent was for the “conforming/non-conforming” provisions to only include off-balance sheet collateral, revisions would be required to separately capture the restricted asset risk for securities lending collateral reporting on balance sheet.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

* The Working Group directed a referral response to the Life Risk-Based Capital (E) Working Group on February 20, 2024, requesting time to assess accounting and reporting differences between securities lending and repurchase agreements before moving forward with RBC factor changes for repurchase agreements. This agenda is in response to the initial LRBCWG referral.
* Agenda item 2023-26 developed in response to *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*, proposes new disclosures for repos and reverse repos, including on counterparty risk arising from these transactions.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification with direction to work with industry in determining current application and interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral.

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

**Status:**

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed this agenda item and directed NAIC staff to work with industry in determining current application/interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral for possible consistency revisions.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Exposures/24-04 - Conforming Repos.docx

1. Cash “collateral,” sometimes used, for example, in securities lending transactions, shall be derecognized by the payer and recognized by the recipient, not as collateral, but rather as proceeds of either a sale or a borrowing. [↑](#footnote-ref-2)
2. If the “collateral” in a transaction that meets the criteria in paragraph 8 is a financial asset that the holder or its agent is permitted by contract or custom to sell or repledge, that financial asset is proceeds of the sale of the “loaned” securities. To the extent that the “collateral” consists of letters of credit or other financial instruments that the holder or its agent is not permitted by contract or custom to sell or repledge, a securities lending transaction does not satisfy the sale criteria and is accounted for as a loan of securities by the transferor to the transferee. [↑](#footnote-ref-3)
3. If cash is received by the transferor or its agent and reinvested or repledged it is reported on balance sheet. It is explicitly intended that when the lender bears reinvestment risk, that collateral is on balance sheet. [↑](#footnote-ref-4)
4. An example of collateral which is off balance sheet is when securities are received by the transferor or its agent in which the collateral must be held and returned, without the ability to transfer or repledge the collateral. This would involve limited situations in which the transferor or agent is prohibited from reinvesting the collateral. [↑](#footnote-ref-5)
5. The collateral requirements are required for determining admitted assets under statutory accounting, but the receipt of collateral is not a factor in determining whether the transferor has effective control over the loaned assets in accordance with paragraph 51. [↑](#footnote-ref-6)
6. Instead of cash, other securities or letters of credit sometimes are exchanged. Those transactions are accounted for in the same manner as securities lending transactions (paragraphs 85-92). [↑](#footnote-ref-7)
7. The collateral requirements are required for determining admitted assets under statutory accounting, but the receipt of collateral is not a factor in determining whether the transferor has effective control over the loaned assets in accordance with paragraph 50. [↑](#footnote-ref-8)
8. All repurchase and reverse repurchase transactions (collectively referred to as “repos”), and securities borrowing and securities lending transactions shall be reported gross for disclosure purposes and when detailed on the respective investment schedules. However, repurchase and reverse repurchase transactions, and securities borrowing and securities lending transactions may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* when a valid right to offset exists. When these transactions are offset in accordance with SSAP No. 64 and reported net in the financial statements, the disclosure requirements in SSAP No. 64, paragraph 6, shall be followed. [↑](#footnote-ref-9)
9. Only short-term repo agreements (with a stated short-term maturity date) are allowed as admitted assets. Long-term repo agreements (agreements with maturity dates in excess of 365 days) are nonadmitted. [↑](#footnote-ref-10)
10. For secured borrowing repurchase transactions, the insurance reporting entity is selling a security, and receiving collateral (generally cash) in an exchange that does not qualify as a sale. [↑](#footnote-ref-11)
11. For secured borrowing reverse repurchase transactions, the insurance reporting entity is buying a security and providing collateral (generally cash) in an exchange that does not qualify as a sale. [↑](#footnote-ref-12)
12. For sale repurchase transactions, the insurance reporting entity sold a security and received “proceeds” in exchange. With a sale transaction, the insurer removes the asset from their financial statements and recognizes the proceeds from the sale. This transaction requires recognition of a forward repurchase commitment. [↑](#footnote-ref-13)
13. For sale reverse repurchase transactions, the insurance reporting entity has purchased a security and provided “proceeds” in exchange. With a sale transaction, the insurer reports the acquired asset in their financial statements and removes the proceeds provided. This transaction requires recognition of a forward resale commitment. [↑](#footnote-ref-14)