

Statutory Accounting Principles (E) Working Group  
Meeting Agenda  
March 16, 2024

**A. Consideration of Maintenance Agenda – Pending List**

1. Ref #2024-02: ASU 2023-01, Leases (Topic 842), Common Control Arrangements
2. Ref #2024-03: ASU 2023-08, Accounting for and Disclosure of Crypto Assets
3. Ref #2024-04: Conforming Repurchase Agreements
4. Ref #2024-05: A-791 Paragraph 2c
5. Ref #2024-07: Reporting of Funds Withheld and Modco Assets
6. Ref #2024-08: Consistency Revisions for Residuals
7. Ref #2024-09: SSAP No. 2R – Clarification
8. Ref #2024-10: SSAP No. 56R – Book Value Separate Accounts
9. Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures
10. Ref #2024-12: Updates to SSAP No. 27
11. Ref #2024-13: Update SSAP No. 107 Disclosures
12. Ref #2024-14EP: Accounting Practices and Procedures Manual Editorial

Ref #	Title	Attachment #
2024-02 (Jake)	ASU 2023-01, Leases (Topic 842), Common Control Arrangements	A – Form A

*Summary:*

In March 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements*. This ASU was issued as part of FASB’s post-implementation review to address issues that have been found during the implementation of the new lease guidance from ASU 2016-02, Leases (Topic 842). As a reminder, ASU 2016-02 was rejected for statutory accounting and the operating lease treatment was retained.

ASU 2023-01 focuses on two issues that are both related to private company stakeholders’ concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine 1) whether a lease exists and, if so, 2) the classification of and accounting for that lease. The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist (including in situations in which an entity does not document existing unwritten terms and conditions upon transition to the practical expedient), an entity is prohibited from applying the practical expedient and must evaluate the enforceable terms and conditions to apply Topic 842. The new U.S. GAAP guidance for this issue is only applicable to non-public entities.

The second issue involves the accounting for leasehold improvements associated with a lease between entities under common control. U.S. GAAP guidance for life of leasehold improvements prior to this update generally agrees to that of statutory accounting. It was noted in the ASU that private company stakeholders noted that amortizing leasehold improvements associated with arrangements between entities under common control determined to be leases (hereinafter referred to as common control leases) over a period shorter than the expected useful life of the leasehold improvements may result in financial reporting that does not faithfully represent the economics of those leasehold improvements, particularly in common control leases with short lease terms. While this issue originally

came from comments from private company stakeholders, the guidance for this issue is applicable for all lessees that are a party to a lease between entities under common control in which there are leasehold improvements, so this issue could potentially be relevant to insurers.

*Recommendation:*

**NAIC staff recommends the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification, ASU 2023-01 in SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements and SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities, as illustrated in the Form A. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.**

Ref #	Title	Attachment #
2024-03 (Jake)	ASU 2023-08, Accounting for and Disclosure of Crypto Assets	B – Form A

*Summary:*

In December 2023, the FASB issued *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. This ASU establishes the accounting and reporting for crypto assets, which are defined in U.S. GAAP as assets that:

1. Meet the definition of intangible assets as defined in the Codification
2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
3. Are created or reside on a distributed ledger based on blockchain or similar technology
4. Are secured through cryptography
5. Are fungible
6. Are not created or issued by the reporting entity or its related parties.

ASU 2023-08 also clarified the disclosure of crypto assets in the financial statements, which note that crypto assets are to be reported at fair value, are reported separately from the other intangible assets, describe how they are to be disclosed in the income statement and statement of cash flows and includes a roll forward of activity and balances.

As background, on May 20, 2021, the Working Group adopted *INT 21-01: Accounting for Cryptocurrencies*, which established statutory accounting for crypto assets. At that time, NAIC staff had received several questions on the proper treatment of cryptocurrencies, and the Working Group adopted INT 21-01 to clearly establish that directly held cryptocurrencies do not meet the definition of an admitted asset. The INT established that directly held cryptocurrencies were not identified in the *Accounting Practices and Procedures Manual (AP&P Manual)* as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the AP&P Manual as an admitted asset. Additionally, a disclosure for crypto assets was added to the general interrogatories of the Annual Statement blanks and instructions.

This agenda item intends to codify the guidance that was adopted in INT 21-01, and formally establish that directly held crypto assets are nonadmitted assets for statutory accounting.

*Recommendation:*

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification ASU 2023-08 for**

statutory accounting. The agenda item proposes to adopt the definition of crypto assets from the ASU, but establishes that directly held crypto assets are nonadmitted assets for statutory accounting. The recommendation is to add guidance to *SSAP No. 20—Nonadmitted Assets* that clarifies that directly-held crypto assets are nonadmitted assets for statutory accounting and to define crypto assets using the definition from ASU 2023-08. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions. Additionally, NAIC staff recommends that the Working Group expose the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*, upon the adoption of this agenda item. The revisions to SSAP No. 20 are illustrated in the agenda item.

Ref #	Title	Attachment #
2024-04 (Julie)	Conforming Repurchase Agreements	C – Form A

*Summary:*

This agenda item has been developed in response to the January 2024 referral received from the Life Risk-Based Capital (E) Working Group (LRBCWG) pursuant to the 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 the 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. Per the Statutory Accounting Principles (E) Working Group (SAPWG) 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.

*Recommendation:*

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

Ref #	Title	Attachment #
2024-05 (Robin)	A-791 Paragraph 2c	D – Form A

*Summary:*

The Valuation Analysis (E) Working Group (VAWG) sent a referral to the Statutory Accounting Principles (E) Working Group which recommends making a clarifying edit to *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), Life and Health Reinsurance Agreements, Section 2.c’s, Question and Answer by removing the first sentence, which reads, “Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.” The referral notes that:

First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner’s Standard Ordinary (CSO) rates as a “safe harbor,” at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

*Recommendation:*

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to remove the first sentence of the A-791, paragraph 2c’s Question and Answer. In addition, the Working Group should notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.**

Ref #	Title	Attachment #
2024-07 (Jake)	Reporting of Funds Withheld and Modco Assets	E – Form A

*Summary:*

During 2023, as a result of rising interest rates, the Statutory Accounting Principles (E) Working Group addressed the issue of net negative (disallowed) interest maintenance reserve for statutory accounting with *Interpretation (INT) 23-01 Net Negative (Disallowed) Interest Maintenance Reserve*, as a short-term solution. Later in 2023, the IMR Ad Hoc Group was formed to find a more permanent solution to address IMR for statutory accounting. During the IMR Ad Hoc Group’s review process and discussions, it was noted that there were issues with identifying assets that are subject to funds withheld or modified coinsurance (modco) arrangements within the financial statements and reporting schedules. The intent of this agenda item is to make it easier to identify assets that are subject to a funds withheld or modco arrangement through updated reporting in the financials. This agenda item does not intend to change statutory accounting for these arrangements.

Funds withheld and modco arrangements are defined in the glossary to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*:

- Funds withheld assets - *“Assets that would normally be paid over to a reinsurer but are withheld by the ceding entity to permit statutory credit for nonadmitted reinsurance, to reduce a potential credit risk, or to retain control over investments. Under certain conditions, the reinsurer may withhold funds from the ceding entity.”*
- Modco arrangements - *“Indemnity life insurance that differs from coinsurance only in that the reserves are retained by the ceding entity, which represents a prepayment of all or a portion of the reinsurer’s future obligation. Periodically an adjustment is made to the mean reserve on deposit with the ceding entity. This is usually done quarterly but may be done more frequently. If the reserve increases, the increase in mean reserve less interest on the mean reserve held at the end of the previous accounting period is paid by the reinsurer to the ceding entity. If the mean reserve decreases, the decrease and interest are paid by the ceding entity to the reinsurer. The appropriate interest rate is defined in the treaty.”*

Although this issue of clarity of reporting of funds withheld and modco assets came from the IMR project, which is focused on life insurance, funds withheld and modco also exist for property/casualty insurance, so this agenda item proposes to add this updated reporting to all the annual statement blanks.

The initial recommendation is to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. The new part would be similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

*Recommendation:*

**NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks, that is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.**

Ref #	Title	Attachment #
2024-08 (Julie)	Consistency Revisions for Residuals	F – Form A

*Summary:*

This agenda item has been developed to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize residual guidance within SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from their scope and direct companies to SSAP No. 21R.

*Recommendation:*

**NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21R for the formal definition and accounting and reporting guidance. This recommendation involves revisions to SSAP No. 26R—Bonds (Effective 2025), SSAP No. 30R—Unaffiliated Common Stock, SSAP No. 32R—Preferred Stock, SSAP No. 43R—Asset-Backed Securities (Effective 2025), and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.**

Ref #	Title	Attachment #
2024-09 (Julie)	SSAP No. 2R – Clarification	G – Form A

*Summary:*

This agenda item has been developed to update the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to remove a lingering reference to items that have been removed from scope pursuant to the bond project (asset-backed securities) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses ‘rolling’ cash equivalents and short-term investments in which there is a continued reference to *SSAP No. 43R—Asset-Backed Securities* investments and ‘other Invested assets.’ This guidance has been revised to only reflect items in scope of SSAP No. 2R.

*Recommendation:*

**NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda as a SAP clarification and expose revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to eliminate lingering references that imply that asset-backed securities,**

mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Ref #	Title	Attachment #
2024-10 (Julie)	SSAP No. 56 – Book Value Separate Accounts	H – Form A

*Summary:*

This agenda item has been developed to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. The guidance in SSAP No. 56 predominantly focuses on separate account products in which the policyholder bears the investment risk. In those situations, the assets in the separate account are reported at fair value. SSAP No. 56 provides limited guidance for assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, with direction that these assets shall be recorded as if they were held in the general account. This measurement method is generally referred to as “book value.”

NAIC staff are aware that there has been an increase in assets reported at “book value” within the separate account. These have been approved under state prescribed practices and/or interpretations that the reference for fund accumulation contracts captures pension risk transfer (PRT) or registered indexed-linked annuities (RILA) and other similar general-account type products that have been approved by the state of domicile for reporting in the separate account.

The guidance in SSAP No. 56 focuses on the accounting and reporting for both the separate account and general account, with specific focus on what is captured within each account as well as transfers between the two accounts. As the focus is on fair value separate account assets, there is not guidance that details how transfers should occur between the general and separate accounts when the assets will be retained and reported at “book value.” Particularly, the guidance does not address whether assets should be disposed / recognized at fair value when transferring between accounts, with subsequent reporting at the general account measurement guidance or whether the assets should be transferred at the “book value” that is reported in the existing account. The process has the potential to impact recognition of gains / losses and IMR, so it should be clearly detailed to ensure consistent reporting.

*Recommendation:*

**NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda with direction to work with industry in determining current application / differences in interpretations to present to the Working Group along with suggested revisions to codify the approach within SSAP No. 56.**

Ref #	Title	Attachment #
2024-11 (Wil)	ASU 2023-09, Improvements to Income Tax Disclosures	I – Form A

*Summary:*

During December 2023, the FASB issued *ASU 2023-09, Improvements to Income Tax Disclosures* (the ASU) to enhance the transparency and decision usefulness of income tax disclosures. The ASU amends and expands the disclosures for rate reconciliation between income tax expense and tax rate expectations for both public and private entities. Per the ASU, “The objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to

understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.” Public entities are required to provide detailed quantitative and qualitative disclosures, while private are only required to provide qualitative rate reconciliation disclosures on certain specified categories. Additionally, the ASU also requires all entities to provide additional disclosures on income tax expense and income taxes paid, and removes the disclosure requirement for positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date (ASC 740-10-50-15d), and the cumulative amount of each type of temporary difference related to unrecognized deferred tax liabilities (ASC 740-30-50-2b).

*Recommendation:*

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed within the Form A, to adopt ASU 2023-09, Improvements to Income Tax Disclosures with modification in SSAP No. 101—Income Taxes.** The disclosures revisions we have recommended are:

- Removal of SSAP No. 101, paragraph 23b disclosure of the cumulative amount of each type of temporary tax difference when a deferred tax liability is not recognized for undistributed foreign earnings. (ASC 740-30-50-2(b))
- Disclosure of income/loss before income tax expense/benefit, disaggregated by domestic and foreign. (ASC 740-10-50-10A)
- Disclosures of income tax expense/benefit and income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign. (ASC 740-10-50-10B & 740-10-50-22, respectively)
- Disclosures of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received). (ASC 740-10-50-23)
- Qualitative disclosures on tax rate reconciling items. (ASC 740-10-50-1A, 740-10-50-11A, 740-10-50-12A(a), & 740-10-50-13)

Ref #	Title	Attachment #
2024-12 (Wil)	Updates to SSAP No. 27	J – Form A

*Summary:*

During February 2024, it came to NAIC staffs’ attention that *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk* references *FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet* (FAS 105) which was superseded by *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities* (FAS 133). Additionally, NAIC staff noted that the annual statement instructions only provide disclosures for derivative Swaps, Futures, and Options, however the guidance in SSAP No. 27 is intended to be applicable to all derivative instruments and financial instruments, except those specifically carved out in FAS 105 paragraphs 14 and 15.

NAIC staff suggest amending SSAP No. 27 to specifically list the financial instruments excluded from the SSAP rather than referencing FAS 105, which is significantly out of date as it was superseded by FAS 133 prior to the creation of the Accounting Standards Codification which in turn superseded FAS 133. Staff also suggests updating the annual statement instructions to add an “Other” derivatives category and disclosure examples and instructions for non-derivative financial instruments with off-balance sheet credit risks.

*Recommendation:*

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed within the Form A, to SSAP No. 27 and the Annual Statement Instructions.**



Ref #	Title	Attachment #
2024-13 (Robin)	Update SSAP No. 107 Disclosures	K – Form A

*Summary:*

This agenda item is sponsored by United Health Group and recommends updates to disclosure requirements in *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* to remove disclosures related to transitional reinsurance and for the risk corridors programs which have expired.

In December 2014, the Statutory Accounting Principles (E) Working Group issued SSAP No. 107 to provide accounting and disclosure guidance for the three risk-sharing provision programs of the Affordable Care Act (the “3Rs programs”). SSAP No. 107 covers the three risk sharing programs that were initially part of the Affordable Care Act, a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program. Since that time, the 3Rs programs have changed significantly. Most notably, the temporary transitional reinsurance and risk corridors programs terminated at the end of 2016.

SSAP No. 107 introduced significant financial statement disclosure requirements for the 3Rs programs. The disclosures are required by SSAP No. 107, paragraphs 60-62 and Exhibit B of SSAP No. 107 illustrates the roll-forward disclosure required by paragraph 61. These disclosure requirements are currently satisfied through detailed data tables included in Footnote 24E of the quarterly and annual financial statements.

This agenda item proposes removal of the disclosures for the expired programs and removal of the related parts of the roll forward illustration in Exhibit B of SSAP No. 107 for the expired programs.

*Recommendation:*

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*. The revisions will remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. NAIC staff recommends that the Working Group direct a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.**

**NAIC staff is aware that some states have federal waivers to operate reinsurance programs, but not all of the federal reinsurance waivers operate the same as the original transitional reinsurance program. To the extent the Working Group decides that new disclosures are needed for these reinsurance waiver programs, a future disclosure can be developed separately.**

Ref #	Title	Attachment #
2024-14EP (Jason/Jake)	Accounting Practices and Procedures Manual Editorial	L – Form A

The editorial revisions remove the “Revised” and “R” previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the Manual. NAIC staff consider the “Revised” and “R” identifiers to no longer be useful.

*Recommendation:*

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing of the maintenance agenda, categorize as a SAP clarification, and expose editorial revisions as illustrated within the agenda item.

**B. Consideration of Items on the Active Maintenance Agenda**

## 1. Ref #2023-26: ASU 2023-06 – Disclosure Improvements

Ref #	Title	Attachment #
2023-26 (Wil)	ASU 2023-06 – Disclosure Improvements	M – Form A

*Summary:*

On Dec. 1, 2023, the Working Group deferred action on *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, to allow staff further time to consider whether certain aspects of ASU 2023-06 were applicable to statutory accounting. In October 2023, FASB issued ASU 2023-06 in response to a referral from SEC Release No. 33-10532, *Disclosure Update and Simplification*, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies.

The ASU requires repo counterparty risk disclosures on the accrued interest incurred in securities borrowing or repurchase or resale transactions, separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10% of total assets, disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10% of stockholder's equity, and disclosure for reverse repurchase agreements that exceed 10% of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.

*Recommendation:*

NAIC staff recommends that the Working Group expose revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements* for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The disclosures revisions we have recommended are:

- Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.
- Disclosures of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for repos and reverse repos which are significant (10% of adjusted capital and surplus).

NAIC staff also requests regulator and interested party input on whether the accounting policy disclosure for cash flows associated with derivatives, *ASC 230-10-50-9*, should also be adopted for statutory accounting purposes. This would require companies to provide an accounting policy disclosure for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

## C. Any Other Matters

### a. Review of U.S. GAAP Exposures (Jason - Attachment N)

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

### b. Update on the IMR Ad Hoc Subgroup – Julie (Attachment O)

The IMR Ad Hoc group has met regularly since their first meeting in Oct. 2023. The discussions have focused on 1) information of how IMR impacts actuarial calculations, 2) the definition and purpose of IMR, 3) the impact of derivatives on IMR, and 4) how reinsurance impacts IMR. The IMR Ad Hoc group has meetings scheduled until the 2024 Summer National Meeting. A key element expected as part of the future discussions will be more detail on the derivatives impacting IMR. These discussions are expected to include concepts for how companies determine effectiveness for these “economically effective” derivatives that do not qualify as “accounting effective” under SSAP No. 86—Derivatives as well as the concepts reporting entities have used in determining the amortization timeframe for IMR generated from derivative gains/losses.

NAIC staff will be compiling information on the reported 2023 year-end IMR in the statutory financial statements, including the extent that insurance reporting entities have moved to a net negative (disallowed) IMR position, and the extent (if any) companies have exceeded the 10% admittance threshold. NAIC staff will share information on the reported financial statement info with regulators as soon as possible.

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

Julie Gann and Maggie Chang (NAIC) have been recently involved in monitoring IAIS discussions, including the following:

- Climate Risk Disclosure Subgroup – Since the 2023 Fall National Meeting, there have been many meetings and discussions towards the development of an IAIS paper to provide guidance for supervision of climate-related risks and disclosure. Recent discussions have focused on linking the paper to disclosure requirements in *Insurance Core Principle (ICP) 9: Supervisory Review and Reporting* and *ICP 20: Public Disclosure*. Various elements noting issues with data quality, data validation, metrics and U.S. stakeholder concerns in public reporting have been highlighted as part of the discussions.
- Accounting and Auditing Working Group - The AAWG met virtually Feb. 28-29. Items discussed include the International Accounting Standards Board (IASB) exposure on proposed amendments to *Financial Instruments with Characteristics of Equity*, information on the Climate Risk Disclosure Subgroup, and discussion on the International Auditing and Assurance Standards Board (IAASB) exposure draft *ISA 240, The Auditor’s Responsibilities Related to Fraud in an Audit of Financial Statements*.

This update simply intends to inform the SAPWG regulators and interested parties of these ongoing NAIC staff actions to monitor and participate in the IAIS AAWG. Any questions on discussions or if additional information is requested, please contact NAIC staff.

**Comment Deadline** for exposures with blanks impact is **April 19** (and listed below), and for all other items the deadline will be **May 31**.

- Ref #2022-14: New Market Tax Credits
- Ref #2024-13: Update SSAP No. 107 Disclosures

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Meeting/0 - 03-2024 SAPWG Meeting Agenda.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/0-03-2024SAPWGMeetingAgenda.docx)

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

**Issue:** ASU 2023-01, Leases (Topic 842), Common Control Arrangements

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** In March 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements*. This ASU was issued as part of FASB’s post-implementation review to address issues that have been found during the implementation of the new lease guidance from *ASU 2016-02, Leases (Topic 842)*. As a reminder, ASU 2016-02 was rejected for statutory accounting and the operating lease treatment was retained.

ASU 2023-01 focuses on two issues that are both related to private company stakeholders’ concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine 1) whether a lease exists and, if so, 2) the classification of and accounting for that lease. The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist (including in situations in which an entity does not document existing unwritten terms and conditions in writing upon transition to the practical expedient), an entity is prohibited from applying the practical expedient and must evaluate the enforceable terms and conditions to apply Topic 842. The new U.S. GAAP guidance for this issue is only applicable to non-public entities.

The second issue involves the accounting for leasehold improvements associated with a lease between entities under common control. U.S. GAAP guidance for life of leasehold improvements prior to this update generally agrees to statutory accounting. It was noted in the ASU that private company stakeholders were concerned that amortizing leasehold improvements associated with arrangements between entities under common control determined to be leases (hereinafter referred to as common control leases) over a period shorter than the expected useful life of the leasehold improvements might result in financial reporting that do not faithfully represent the economics of those leasehold improvements, particularly in common control leases with short lease terms. While this issue originally came from private company stakeholder comments, the guidance for this issue is applicable for all lessees that are party to a lease between entities under common control in which there are leasehold improvements.

**Existing Authoritative Literature:**

The ASUs related to Topic 842 have previously been rejected in *SSAP No. 22R—Leases*. Guidance for leasehold improvements is included in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and guidance for related parties is included in *SSAP No. 25—Affiliates and Other Related Parties*.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

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

**Convergence with International Financial Reporting Standards (IFRS):** ASC Topic 842 was the result of a joint project between FASB and the International Accounting Standards Board.

**Staff Recommendation:**

NAIC staff recommends the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification, ASU 2023-01 in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, as illustrated in the Form A. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in *SSAP No. 19* and *SSAP No. 73*.

***SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements***

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in *SSAP No. 4*. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term as defined in *SSAP No. 22R*. Leasehold improvements associated with a lease between entities under common control shall be amortized over the useful life of those improvements to the holding company group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same holding company group, the amortization period shall not exceed the amortization period of the holding company group. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee. Such improvements related to the functionality of health care delivery assets shall follow the accounting, reporting and impairment guidance in *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and an exception to the application of this guidance to leasehold improvements necessary for the functionality of health care delivery assets is included in *SSAP No. 73*. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

20. This statement adopts, with modification, ASU 2023-01, Leases (Topic 842), Common Control Arrangements. The practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement is rejected for statutory accounting. The guidance for lessees that are a party to a lease between entities under common control in which there are leasehold improvements is adopted, with modification to align with existing statutory guidance.

***SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities***

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in *SSAP No. 19*. Leasehold improvements associated with a lease between entities under common control shall be amortized over the useful life of those improvements to the holding company group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same holding company group, the amortization period shall not exceed the amortization period of the holding company group. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee but excludes situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded from the purchase cost of the real estate.

Upon acquisition, such leasehold improvements necessary for the functionality of healthcare delivery assets shall follow the guidance for health care delivery assets in this statement. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

13. This statement adopts, with modification, ASU 2023-01, Leases (Topic 842), Common Control Arrangements. The practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement is rejected for statutory accounting. The guidance for lessees that are a party to a lease between entities under common control in which there are leasehold improvements is adopted, with modification to align with existing statutory guidance.

**Staff Review Completed by:** Jake Stultz, NAIC Staff – February 2024

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/A-24-02-ASU2023-01Leases.docx>

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

**Issue:** ASU 2023-08, Accounting for and Disclosure of Crypto Assets

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** In December 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. This ASU establishes the accounting and reporting for crypto assets, which are defined in U.S. GAAP as assets that:

1. Meet the definition of intangible assets as defined in the Codification
2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
3. Are created or reside on a distributed ledger based on blockchain or similar technology
4. Are secured through cryptography
5. Are fungible
6. Are not created or issued by the reporting entity or its related parties.

ASU 2023-08 also clarified the disclosure of crypto assets in the financial statements, which note that crypto assets are to be reported at fair value, are reported separately from the other intangible assets, describe how they are to be disclosed in the income statement and statement of cash flows, and includes a rollforward of activity and balances on an annual basis.

As background, on May 20, 2021, the Working Group adopted *Interpretation (INT) 21-01: Accounting for Cryptocurrencies*, which established statutory accounting for crypto assets. At that time, NAIC staff had received several questions on the proper treatment of cryptocurrencies, so with the absence of U.S. GAAP guidance, the Working Group adopted INT 21-01. The INT established that directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual (AP&P Manual)* as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the AP&P Manual as an admitted asset. Additionally, a disclosure for crypto assets was added to the general interrogatories of the Annual Statement blanks and instructions.

This agenda item intends to codify the guidance that was adopted in INT 21-01, and formally establish that crypto assets are nonadmitted assets for statutory accounting.

**Existing Authoritative Literature:**

Accounting for cryptocurrencies is currently addressed by *INT 21-01 Accounting for Cryptocurrencies*, and the Annual Statement blanks included a disclosure in the general interrogatories.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

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



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

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification ASU 2023-08 for statutory accounting. The agenda item proposes to adopt the definition of crypto assets from the ASU but establishes that directly held crypto assets are nonadmitted assets for statutory accounting. The recommendation is to add guidance to *SSAP No. 20—Nonadmitted Assets* that clarifies that directly-held crypto assets are nonadmitted assets for statutory accounting and to define crypto assets using the definition from ASU 2023-08. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions. Additionally, NAIC staff recommends that the Working Group expose the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*, upon the adoption of this agenda item. The revisions to SSAP No. 20 are illustrated below.

*SSAP No 20—Nonadmitted Assets*

Paragraph 4:

f. Crypto assets are defined as intangible digital assets in which transactions are created or reside on a distributed ledger based on blockchain or similar technology and are verified with records maintained by a decentralized system using cryptography, rather than by a centralized authority, and do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets. Directly held crypto assets do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*, and due to the volatile nature of the assets and liquidity issues, the assets shall not be considered available to satisfy policyholder obligations.

5. This statement adopts with modification *FASB Emerging Issues Task Force No. 08-7: Accounting for Defensive Intangible Assets* to nonadmit defensible intangible assets. This statement rejects Chapters 3A and 11 of *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*. This statement adopts, with modification ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60)*, *Accounting for and Disclosure of Crypto Assets*, which adopts the definition of crypto assets from the ASU and establishes that directly held crypto assets are nonadmitted assets for statutory accounting.

**Staff Review Completed by:** Jake Stultz, NAIC Staff—February 2024

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/B-24-03-ASU2023-08Crypto.docx>

**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	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**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

14. 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

19. 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<sup>1</sup> 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.)

- a. 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.

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<sup>1</sup> 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.

- b. 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.
- c. 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.
- d. 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.

20. 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

85. 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.

86. If the criteria conditions in paragraph 8 (sales criteria) are met, securities lending transactions shall be accounted for:

- a. By the transferor as a sale of the "loaned" securities for proceeds consisting of the cash collateral<sup>2</sup> and a forward repurchase commitment.

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<sup>2</sup> 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.

- b. 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.

87. 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.

88. 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.

89. 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<sup>3</sup>. Collateral received which may not be sold or repledged by the transferor or its agent is off balance sheet<sup>4</sup>. For collateral on the balance sheet, the reporting is determined by the administration of the program.

- a. 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).
- b. 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).

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<sup>3</sup> 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.

<sup>4</sup> 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.

- c. 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.).

90. 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<sup>5</sup>**

91. 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.

92. 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)**

93. 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.

94. 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.

95. 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.

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<sup>5</sup> 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.

## Repurchase Agreements and "Wash Sales"

96. 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<sup>6</sup> 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.

97. 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.

98. 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.)

99. 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.

100. 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.

101. 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

102. 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.

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<sup>6</sup> 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).

103. 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.

104. 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

111. 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.

112. 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<sup>7</sup>

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

#### Repurchase Transaction

- a. 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

- b. 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. 103. Only relevant subparagraphs are reflected.)*

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<sup>7</sup> 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.



28. A reporting entity shall disclose the following<sup>8</sup>:

- a. For Repurchase and Reverse Repurchase Agreements:
  - i. 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:
    - (a) Whether repo agreements are bilateral and/or tri-party trades;
    - (b) 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<sup>9</sup>;
    - (c) 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.)
  - ii. For repurchase transactions accounted for as secured borrowings<sup>10</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
    - (a) 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.
    - (b) 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):

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<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> 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.

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.
  - (c) 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.
- iii. For reverse repurchase transactions accounted for as secured borrowings<sup>11</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
- (a) 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.
  - (b) 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.
  - (c) 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.)
  - (d) 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.)
- iv. For repurchase transactions accounted for as a sale<sup>12</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:

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<sup>11</sup> 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.

<sup>12</sup> 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.

- (a) 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.
  - (b) 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.
  - (c) The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction.
- v. For reverse repurchase transactions accounted for as sale<sup>13</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual):
- (a) 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.
  - (b) 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).
  - (c) The forward resale commitment recognized (stated repurchase price) to sell the acquired securities.
- b. Collateral:
- i. 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;
  - ii. 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.
  - iii. 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,

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<sup>13</sup> 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.

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.

- iv. 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.
  - v. For all securities lending transactions, disclose collateral for transactions that extend beyond one year from the reporting date; and
  - vi. 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
  - vii. 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.
- c. 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.
- i. 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.
  - ii. 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.*

**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 Nature of Restriction	2 Description	3 Amount

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

Collateral included in General Interrogatories, Part 1, Line 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

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/C-24-04-ConformingRepos.docx>

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

Issue: A-791 Paragraph 2c

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

The Valuation Analysis (E) Working Group sent a referral to the Statutory Accounting Principles (E) Working Group which recommends making a clarifying edit to A-791, Life and Health Reinsurance Agreements, Section 2.c's, Question and Answer by removing the first sentence, which reads, "Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide." (See Existing Authoritative Literature) The referral notes that:

First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner's Standard Ordinary (CSO) rates as a "safe harbor," at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

Existing Authoritative Literature:

A-791, Life and Health Reinsurance Agreements, paragraph 2c:

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;



**A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer (Underlining added for Emphasis):**

**Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?**

**A – Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide. So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.**

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** On January 10, 2024, the Statutory Accounting Principles (E) Working Group received the referral from the Valuation Analysis (E) Working Group and directed NAIC staff to prepare an agenda item for future Working Group discussion.

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

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

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to remove the first sentence of the A-791, paragraph 2c's Question and Answer as illustrated below. In addition, the Working Group should notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

As noted by the referral, the sentence is not necessary as it is more of an introductory aside. If it is causing confusion and misapplication, as noted by the VAWG, it is better to remove the sentence.

**Proposed revision to A-791, Life and Health Reinsurance Agreements, paragraph 2c:**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

**A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer):**

**Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?**

**A – ~~Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.~~ So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is-are effective for contracts in effect as of January 1, 2021.**

**Staff Review Completed by:** Robin Marcotte – NAIC Staff, February 2024

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/D-24-05-A791par2c.docx>

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

**Issue:** Reporting of Funds Withheld and Modco Assets

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** During 2023, as a result of rising interest rates, the Statutory Accounting Principles (E) Working Group addressed the issue of net negative (disallowed) interest maintenance reserve for statutory accounting with *Interpretation (INT) 23-01 Net Negative (Disallowed) Interest Maintenance Reserve*, as a short-term solution. Later in 2023, the IMR Ad Hoc Group was formed to find a more permanent solution to address IMR for statutory accounting. During the IMR Ad Hoc Group’s review process and discussions, it was noted that there were issues with identifying assets that are subject to funds withheld or modified coinsurance (modco) arrangements within the financial statements and reporting schedules. The intent of this agenda item is to make it easier to identify assets that are subject to a funds withheld or modco arrangements through updated reporting in the financials. This agenda item does not intend to change statutory accounting for these arrangements.

Funds withheld and modco arrangements are defined in the glossary to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*:

- Funds withheld assets - “Assets that would normally be paid over to a reinsurer but are withheld by the ceding entity to permit statutory credit for nonadmitted reinsurance, to reduce a potential credit risk, or to retain control over investments. Under certain conditions, the reinsurer may withhold funds from the ceding entity.”
- Modco arrangements - “Indemnity life insurance that differs from coinsurance only in that the reserves are retained by the ceding entity, which represents a prepayment of all or a portion of the reinsurer’s future obligation. Periodically an adjustment is made to the mean reserve on deposit with the ceding entity. This is usually done quarterly but may be done more frequently. If the reserve increases, the increase in mean reserve less interest on the mean reserve held at the end of the previous accounting period is paid by the reinsurer to the ceding entity. If the mean reserve decreases, the decrease and interest are paid by the ceding entity to the reinsurer. The appropriate interest rate is defined in the treaty.”

Although this issue of clarity of reporting of funds withheld and modco assets was raised as part of the IMR project, which is focused on life insurance, funds withheld also exist for property/casualty insurance, so this agenda item proposes to add this updated reporting to all the annual statement blanks.

The initial recommendation is to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. The new part would be similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

**Existing Authoritative Literature:**

Funds withheld and modco arrangements are noted in *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*. Funds withheld are also discussed in *SSAP No. 62R—Property and Casualty Reinsurance* and Appendix A-785 Credit for Reinsurance.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

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

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

**Staff Recommendation:**

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks, that is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

**Staff Review Completed by:** Jake Stultz, NAIC Staff—February 2024

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/E-24-07-ModcoReporting.docx>

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

**Issue: Consistency Revisions for Residuals**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** This agenda item has been developed to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize the guidance in SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from scope and direct to SSAP No. 21R.

**Existing Authoritative Literature:** - Key references **bolded** for emphasis.

- *SSAP No. 21R—Other Admitted Assets (Effective 2025)*

**Note – Include residual guidance once SSAP No. 21R language is adopted.**

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

4. This statement excludes:

- a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in *SSAP No. 37—Mortgage Loans* and *SSAP No. 39—Reverse Mortgages*.
- b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities*.
- c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.
- d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack contractual payments or substantive credit enhancement. These investments shall follow the appropriate guidance in *SSAP No. 21R— Other Admitted Assets*.

- e. Replication (synthetic asset) transactions addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within *SSAP No. 86*.
- f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of *SSAP No. 21R—Other Admitted Assets*, held surplus notes are captured in scope of *SSAP No. 41R—Surplus Notes* and working capital finance investments are captured in scope of *SSAP No. 105—Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.

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

- a. **Substantive Credit Enhancement:** The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of *SSAP No. 26R* as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.
- b. **The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss position(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in *SSAP No. 21R—Other Admitted Assets*.)**

- ***SSAP No. 30R—Unaffiliated Common Stock***

1. This statement establishes statutory accounting principles for common stocks.
2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
3. **Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 43R* or *SSAP No. 48*, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.**

- **SSAP No. 32R—Preferred Stock**

1. This statement establishes statutory accounting principles for preferred stock.
2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
3. **Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.**

- **SSAP No. 43R—Asset-Backed Securities (Effective 2025)**

4. This statement excludes:
  - a. Securities captured in scope of *SSAP No. 26R—Bonds*.
  - b. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under SSAP No. 26R.
  - c. **Securities that do not qualify as Asset-Backed Securities per the bond definition in SSAP No. 26R—Bonds. This exclusion includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement. Debt securities that do not qualify and residual interests shall follow guidance in SSAP No. 21R—Other Admitted Assets.**

11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual):

- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities, **excluding residual tranches or interests**, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. 3
- b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), **excluding residual tranches or interests**, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
- c. **For residual tranches or interests<sup>4</sup>, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. These items are captured in SSAP No. 21R—Other Admitted Assets and subject to admittance restrictions detailed in that statement.**

**Footnote 4: Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.**

#### **Residual Tranches or Interests**

**27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.**

**28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.**

- a. Residuals often do not have contractual principal or interest.**
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and 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.**
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.**
- d. 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 debt tranche holders receive contractual principal and interest payments.**
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.**



- **SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies**

### **Residual Interests and Reporting**

18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and 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.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. 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 debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

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

- Agenda Item 2021-15 – SSAP No. 43R – Residual Tranches, was adopted November 10, 2021, to incorporate accounting guidance for residuals and clarify that residuals shall be reported on Schedule BA.
- Agenda item 2023-12 – Residuals in SSAP No. 48 Investments, was adopted September 21, 2023 to define residuals consistently between *SSAP No. 43R—Asset-Backed Securities* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and to add Annual Statement Instructions for the Schedule BA residual reporting category.
- Agenda Item 2023-23 – Residuals in Preferred Stock and Common Stock Structures was adopted during the 2023 Fall National Meeting to exclude residual interests from *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock*.
- Principles-Based Bond Definition – During the 2023 Summer National Meeting, the Working Group adopted the principles-based bond definition in a revised *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*. Subsequent to this adoption, revisions to *SSAP No. 21R—Other Admitted Assets* were exposed to capture accounting and reporting guidance for non-bond debt securities as well as residual interests. (Note – Expand with adoption date.)

**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 and expose revisions to incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21R for the formal definition and accounting and reporting guidance. This recommendation involves revisions to *SSAP No. 26R—Bonds (Effective 2025)*, *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities (Effective 2025)*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

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

**Proposed Revisions:**

**SSAP No. 26R—Bonds (Effective 2025)**

4. This statement excludes:
  - a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in *SSAP No. 37—Mortgage Loans* and *SSAP No. 39—Reverse Mortgages*.
  - b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities*.
  - c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.
  - d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack ~~contractual payments or~~ substantive credit enhancement as described

~~in paragraph 10b, as those items are residual interests. All investments that are in substance residual interests or that is a residual security tranche, as defined in SSAP No. 21R—Other Admitted Assets. These investments shall follow the appropriate guidance in SSAP No. 21R—Other Admitted Assets.~~

- e. Replication (synthetic asset) transactions addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86.
- f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of *SSAP No. 21R—Other Admitted Assets*, held surplus notes are captured in scope of *SSAP No. 41R—Surplus Notes* and working capital finance investments are captured in scope of *SSAP No. 105—Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.

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

- a. Substantive Credit Enhancement: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.
- b. The first loss position may be issued as part of an securitization-ABS structure in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization structure. If the first loss position (or a more senior position(s), if the first loss position(s) lacks ~~contractual payments along with a~~ substantive credit enhancement) is issued as part of the securitization structure, and does not have ~~contractual principal and interest payments along with~~ substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond as it is a residual interest. All residual interests shall follow the accounting and reporting guidance in SSAP No. 21R—Other Admitted Assets, and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in SSAP No. 21R—Other Admitted Assets.)

- **SSAP No. 30R—Unaffiliated Common Stock**

1. This statement establishes statutory accounting principles for common stocks.
2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
3. Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in ~~SSAP No. 21R—Other Admitted Assets~~~~SSAP No. 43R or SSAP No. 48~~, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting ~~be reported~~ on *Schedule BA: Other Long-Term Assets* in the dedicated reporting lines for residuals.

- **SSAP No. 32R—Preferred Stock**

1. This statement establishes statutory accounting principles for preferred stock.
2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
3. Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in ~~SSAP No. 43R or SSAP No. No. 48~~~~SSAP No. 21R—Other Admitted Assets~~, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting ~~be reported~~ on *Schedule BA: Other Long-Term Assets* in the dedicated reporting lines for residuals.

- **SSAP No. 43R—Asset-Backed Securities (Effective 2025)**

4. This statement excludes:
  - a. Securities captured in scope of *SSAP No. 26R—Bonds*.
  - b. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under *SSAP No. 26R*.
  - c. Securities that do not qualify as Asset-Backed Securities per the bond definition in *SSAP No. 26R—Bonds* and residual interests as defined in SSAP No. 21R—Other Admitted Assets. ~~This exclusion includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement. These securities~~ Debt securities that do not qualify and residual interests shall follow the accounting and reporting guidance in SSAP No. 21R. ~~—Other Admitted Assets~~
11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual):

a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities, ~~excluding residual tranches or interests~~, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. 3

b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), ~~excluding residual tranches or interests~~, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

~~c. For residual tranches or interests<sup>4</sup>, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. These items are captured in SSAP No. 21R—Other Admitted Assets and subject to admittance restrictions detailed in that statement.~~

~~Footnote 4: Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.~~

#### ~~Residual Tranches or Interests~~

~~27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

~~28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

~~a. Residuals often do not have contractual principal or interest.~~

- ~~b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and 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.~~
- ~~c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.~~
- ~~d. 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 debt tranche holders receive contractual principal and interest payments.~~
- ~~e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.~~

- **SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies**

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO), whether or not it is considered to be controlled by or affiliated with the reporting entity.

2. This statement excludes:

- a. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in SSAP No. 40R—Real Estate Investments, are excluded from this statement.
- b. This statement does not address the accounting for investments in joint ventures, partnerships and limited liability companies that invest in tax credit programs and are in scope of Low-Income Housing Tax Credit Properties as discussed in SSAP No. 93—Investments in Tax Credit Programs Low-Income Housing Tax Credit Property Investments. However, investments in certain state Low-Income Housing Tax Credit Property Investments that do not fall within the scope of SSAP No. 93 are covered by the requirements of this statement. (Staff Note: This text reflects edits proposed to reflect the revised tax credit guidance in SSAP No. 93 exposed under agenda item 2022-14.)
- c. Investments that are in substance residual interests or a residual security tranche, as defined in SSAP No. 21R—Other Admitted Assets, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.

### **Residual Interests and Reporting**

~~18. Investments in scope of this statement are reported on Schedule BA: Other Long-Term Assets. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.~~

~~19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are~~

~~met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

~~20. — The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

- ~~a. — Residuals often do not have contractual principal or interest.~~
- ~~b. — Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and 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.~~
- ~~c. — Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.~~
- ~~d. — 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 debt tranche holders receive contractual principal and interest payments.~~
- ~~e. — Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.~~

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/F-24-08-ResidualConsistencyRevisions.docx>

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

**Issue: SSAP No. 2R – Clarification**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** This agenda item has been developed to update the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to remove a lingering reference to items that have been removed from scope pursuant to the principles-based bond definition project (asset-backed securities) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses ‘rolling’ cash equivalents and short-term investments in which there is a continued reference for SSAP No. 43R investments and ‘other Invested assets.’ This guidance has been revised to only reflect items in scope of SSAP No. 2R.

**Existing Authoritative Literature:**

- *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*
  7. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply,<sup>1</sup> unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
    - a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
    - b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
    - c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)
  15. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested

<sup>1</sup> Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.



Assets” shall be reported as long-term investments if any of the following conditions apply,<sup>2, 3</sup> unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

- a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
- b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

**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):**

- *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*, reflecting new guidance to incorporate a principles-based bond definition were adopted during the 2023 Summer National Meeting. This guidance is effective Jan. 1, 2025. Pursuant to the revisions adopted, all ABS are required to be reported as long-term investments on Schedule D-1-2 and are not permitted for cash equivalent or short-term reporting.
- Agenda item 2023-17 – Short-Term Investments, was adopted during the 2023 Fall National Meeting and removes mortgage loans and all Schedule BA investments from being reported as cash equivalents or short-term investments.

**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 and expose revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities,**

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<sup>2</sup> Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

<sup>3</sup> Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

**mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.**

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

**Proposed Revisions to SSAP No. 2R—Bonds (Effective Jan. 1, 2025)**

7. Regardless of maturity date, related party or affiliated investments that would be in scope of ~~this statement pursuant to paragraph 6 SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets”~~ shall be reported as long-term investments if any of the following conditions apply,<sup>4</sup> unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
  - a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
  - b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
  - c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)
  
15. Regardless of maturity date, related party or affiliated investments in scope of ~~this statement pursuant to paragraph 14 SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets”~~ shall be reported as long-term investments if any of the following conditions apply,<sup>5, 6</sup> unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
  - a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
  - b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is

<sup>4</sup> Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

<sup>5</sup> Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

<sup>6</sup> Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

- unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/G-24-09-SSAPNo.2RClarification.docx>

**Statutory Accounting Principles (E) Working Group  
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Form A**

**Issue: SSAP No. 56 – Book Value Separate Accounts**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** This agenda item has been developed to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. The guidance in SSAP No. 56 predominantly focuses on separate account products in which the policyholder bears the investment risk. In those situations, the assets in the separate account are reported at fair value. SSAP No. 56, paragraph 17 provides limited guidance for assets supporting fund accumulation contracts (GICs), and this measurement method is generally referred to as “book value”:

Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.

NAIC staff are aware that there has been an increase in assets reported at “book value” within the separate account. These have been approved under state prescribed practices and/or interpretations that the reference for fund accumulation contracts captures pension risk transfer (PRT) or registered indexed-linked annuities (RILA) and other similar general-account type products that have been approved by the state of domicile for reporting in the separate account.

The guidance in *SSAP No. 56—Separate Accounts* focuses on the accounting and reporting for both the separate account and general account, with specific focus on what is captured within each account as well as transfers between the two accounts. As the focus is on fair value separate account assets, there is not guidance that details how transfers should occur between the separate and general accounts when the assets will be retained and reported at “book value.” Particularly, the guidance does not address whether assets should be disposed / recognized at fair value when transferring between accounts, with subsequent reporting at the general account measurement guidance or whether the assets should be transferred at the “book value” that is reported in the existing account. The process has the potential to impact recognition of gains / losses and IMR, so it should be clearly detailed to ensure consistent reporting.

**Existing Authoritative Literature:**

- *SSAP No. 56—Separate Accounts*

*Although the entirety of SSAP No. 56 may be relevant, key paragraphs have been identified.*

**General Account Reporting**

5. For those separate account contracts classified as life contracts under *SSAP No. 50—Classification of Insurance or Managed Care Contracts*, premiums and annuity considerations shall be recorded as income in the Summary of Operations of the general account, and as transfers to premiums and considerations in the

separate account statement. Deposit-type contracts shall be recorded in the general account in accordance with *SSAP No. 52—Deposit-Type Contracts*.<sup>(INT 00-03)</sup> Charges (e.g., fees associated with investment management, administration, and contract guarantees) assessed on the separate accounts, as well as the net gain from operations of the separate account, shall be recorded as income in the Summary of Operations of the general account. Expenses relating to investment management, administration, and contract guarantees pertaining to separate account operations, as well as benefits and surrenders incurred on behalf of separate account contracts classified as life contracts, net transfers between separate accounts, commissions, and premium taxes (if any) shall be recorded as expenses in the Summary of Operations of the general account.

6. The general account shall include the total assets and liabilities, including transfers due or accrued, of any separate accounts business which it maintains and, therefore, the surplus, if any, of its separate accounts business. Transfers to the general account due or accrued shall be reported on a net basis so that the asset and the liability totals of the general account are not overstated. Changes in the surplus of the separate accounts business of an insurer, except for changes resulting from the net gain from operations of the separate account, shall be charged or credited directly to the unassigned funds (surplus) of the general account.

#### Separate Account Reporting

15. The separate accounts annual statement is concerned with the flow of funds related to investment activities and obligations of the separate accounts and with the transfer of funds between the separate account and the general account. As a result, the separate account statement shall report only the assets, liabilities, and operations of the separate account and shall not include general account expenses related to investment management, administration, or contract guarantees pertaining to separate account operations which are recorded in the general account.

16. The separate account records premiums, considerations (net of loading for sales charges such as commissions and premium taxes) and receipts (other than for net investment income and realized capital gains and losses) as income transfers from the general account. Net investment income and realized and unrealized capital gains and losses relating to the investment operations of the separate account are recorded as income in the Summary of Operations. When the contract provides for such, expenses and taxes associated with the separate account investment operations shall be deducted in the determination of net investment income. Deposits and withdrawals on deposit-type contracts shall be recorded in the Summary of Operations. Benefits and surrenders, reserve transfers, policy loans<sup>1</sup>, policyholder charges (e.g., fees associated with investment management, administration, and contract guarantees), and federal income taxes relating to the separate account are recorded as expense transfers to the general account in the Summary of Operations. The net change in aggregate reserves relating to separate account contracts is reported as an expense in the Summary of Operations.

17. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.

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

- Agenda Item 2022-19: Negative IMR introduced the discussion of interest maintenance reserve (IMR) within statutory accounting, specifically the guidance for nonadmittance of disallowed negative IMR. This agenda item resulted with *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. This INT

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<sup>1</sup> Policy loans related to separate account products shall follow the guidance in *SSAP No. 49—Policy Loans*. As detailed within *SSAP No. 49*, as part of the expense transfer, policy loans related to separate account products require a liquidation of the separate account assets to fund the loan issued by the general account. A transfer of assets from the separate account to the general account must have occurred to fund the policy loan issuance; otherwise the policy loan is nonadmitted in the general account.

permits admittance of disallowed negative IMR up to 10% of adjusted capital and surplus. The guidance permits admittance of the separate account negative IMR once the general account negative IMR has been admitted if the 10% limit has not been reached. The INT identifies that the concept of nonadmitted assets does not exist in the separate account, therefore the guidance includes application guidance for reversing prior actions that charged negative IMR to surplus before permitting the negative IMR to be recognized as an asset.

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

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

**Staff Recommendation:**

**NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification with direction to work with industry in determining current application / differences in interpretations to present to the Working Group along with suggested revisions to codify the approach within SSAP No. 56.**

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

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/H-24-10-SSAPNo.56-BV.docx>

**Statutory Accounting Principles (E) Working Group  
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**Issue: ASU 2023-09, Improvements to Income Tax Disclosures**

**Check (applicable entity):**

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** During December 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures* (the ASU) to enhance the transparency and decision usefulness of income tax disclosures. The ASU amends and expands the disclosures for rate reconciliation between income tax expense and statutory expectations for both public and private entities. Per the ASU, “The objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.” Public entities are required to provide detailed quantitative and qualitative disclosures, while private are only required to provide qualitative rate reconciliation disclosures on certain specified categories. Additionally, the ASU also requires all entities to provide additional disclosures on income tax expense and income taxes paid, and removes the disclosure requirement for positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date (ASC 740-10-50-15d), and the cumulative amount of each type of temporary difference related to unrecognized deferred tax liabilities (ASC 740-30-50-2b).

**Existing Authoritative Literature:**

*SSAP No. 101—Income Taxes:*

**Disclosures**

21. Statutory financial statement disclosures shall be made in a manner consistent with the provisions of paragraphs 43-45 and 48 of FAS 109. However, required disclosures with regard to a reporting entity’s GAAP valuation allowance shall be replaced with disclosures relating to the statutory valuation allowance adjustment and the nonadmittance of some portion or all of a reporting entity’s DTAs. The financial statements shall include the disclosures required by paragraph 47 of FAS 109 for non-public companies. Paragraphs 22-28 describe the disclosure requirements as modified for the difference between the requirements of FAS 109 and those prescribed by this statement.

22. The components of the net DTA or DTL recognized in a reporting entity’s financial statements shall be disclosed as follows:

- a. The total of all DTAs (gross, adjusted gross, admitted and nonadmitted) by tax character;
- b. The total of all DTLs by tax character;
- c. The total DTAs nonadmitted as the result of the application of paragraph 11;
- d. The net change during the year in the total DTAs nonadmitted;
- e. The amount of each result or component of the calculation, by tax character of paragraphs 11.a., 11.b.i., 11.b.ii., and 11.c., and the ExDTA ACL RBC Ratio, the ExDTA Surplus plus Contingency Reserves/Required Aggregate Risk Capital Ratio, or the Adjusted Gross

DTA/Adjusted Capital and Surplus Ratio used in the applicable *Realization Threshold Limitation Table* (the RBC Reporting Entity Table, the Financial Guaranty or Mortgage Guaranty Non-RBC Reporting Entity Table, or the Other Non-RBC Reporting Entity Table) in paragraph 11.b., as applicable; and

- f. The impact of tax-planning strategies on the determination of adjusted gross DTAs and the determination of net admitted DTAs, by percentage and by tax character, and whether the tax-planning strategies include the use of reinsurance-related tax planning strategies.
23. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:
- a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;
  - b. The cumulative amount of each type of temporary difference;
  - c. The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable; and
  - d. The amount of the DTL for temporary differences other than those in paragraph 23.c. that is not recognized in accordance with the provisions of paragraphs 31 of FAS 109.
24. The significant components of income taxes incurred (i.e., current income tax expense) and the changes in DTAs and DTLs shall be disclosed. Those components would include, for example:
- a. Current tax expense or benefit;
  - b. The change in DTAs and DTLs (exclusive of the effects of other components listed below);
  - c. Investment tax credits;
  - d. The benefits of operating loss carryforwards;
  - e. Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity; and
  - f. Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.



25. Additionally, to the extent that the sum of a reporting entity's income taxes incurred and the change in its DTAs and DTLs is different from the result obtained by applying the federal statutory rate to its pretax net income, a reporting entity shall disclose the nature of the significant reconciling items.

26. A reporting entity shall also disclose the following:

- a. The amounts, origination dates and expiration dates of operating loss and tax credit carryforwards available for tax purposes;
- b. The amount of federal income taxes incurred in the current year and each preceding year, which are available for recoupment in the event of future net losses; and
- c. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.

27. For any federal or foreign income tax loss contingencies as determined in accordance with paragraph 3.a. for which it is reasonably possible that the total liability will significantly increase within 12 months of the reporting date, the reporting entity shall disclose an estimate of the range of the reasonably possible increase or a statement that an estimate of the range cannot be made.

28. If a reporting entity's federal income tax return is consolidated with those of any other entity or entities, the following shall be disclosed:

- a. A list of names of the entities with whom the reporting entity's federal income tax return is consolidated for the current year; and
- b. The substance of the written agreement, approved by the reporting entity's Board of Directors, which sets forth the manner in which the total combined federal income tax for all entities is allocated to each entity which is a party to the consolidation. (If no written agreement has been executed, explain why such an agreement has not been executed.) Additionally, the disclosure shall include the manner in which the entity has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

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

None.

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

None.

**Convergence with International Financial Reporting Standards (IFRS):**

None.

**Staff Recommendation:**

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed below, to adopt *ASU 2023-09 Improvements to Income Tax Disclosures* with modification in *SSAP No. 101—Income Taxes*.**

We recommend that the public entity tax rate reconciliation disclosure requirements be excluded as the private/public entity distinction does not exist in statutory accounting. The disclosure detailed in ASC 740-30-50-2(b) (SSAP No. 101, paragraph 23b) was removed under GAAP as it requires disclosure of the cumulative amount

of each type of temporary tax difference when a deferred tax liability is not recognized for undistributed foreign earnings. Based on discussion within the ASU, Stakeholders indicated that the changes as a result of the Tax Cuts and Jobs Act reduces the relevance of the existing disclosure of the cumulative temporary differences related to foreign subsidiaries when a deferred tax liability is not recognized. As the rationales detailed within the ASU would also be relevant under statutory accounting, we have recommended that paragraph 23b disclosures be removed. The disclosure detailed in ASC 740-10-50-15(d) (SSAP No. 101, paragraph 27) was removed under GAAP due to a conflict with Chapter 8 of the FASB Concepts Statement 8, however the FASB Concepts Statements have not been adopted within the statutory accounting framework. As this conflict does not exist within statutory accounting, we do not recommend removal of the disclosure detailed in SSAP 101 paragraph 27.

**Staff Review Completed by:**

NAIC Staff – William Oden, February 2024

**Amendments to SSAP No. 101:**

**Disclosures**

23. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:

- a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;
- b. ~~The cumulative amount of each type of temporary difference;~~

24. A reporting entity shall also disclose the following:

- a. The amounts, origination dates and expiration dates of operating loss and tax credit carryforwards available for tax purposes;
- b. The amount of federal income taxes incurred in the current year and each preceding year, which are available for recoupment in the event of future net losses; and
- c. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.
- d. ~~Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign shall.~~
- ~~d.e.~~ ~~Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile (that is, the jurisdiction imposing the tax).~~
- f. ~~The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign.~~
- ~~e-g.~~ ~~The amount of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received).~~

29. Nothing in this statement is intended to discourage an entity from reporting additional information specific to the disclosures detailed below to further an understanding of the entity and the related disclosures. If not already disclosed in paragraph 24, the reporting entity shall disclose the following:

- a. The nature and effect of specific categories of reconciling items, as listed below, and individual jurisdictions that result in a significant difference between the tax rate and the effective tax rate. The objective of this disclosure requirement is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the tax rate.
  - i. State and local income tax, net of federal (national) income tax effect
  - ii. Foreign tax effects
  - iii. Effect of changes in tax laws or rates enacted in the current period
  - iv. Effect of cross-border tax laws
  - v. Tax credits
  - vi. Changes in valuation allowances
  - vii. Nontaxable or nondeductible items
  - viii. Changes in unrecognized tax benefits.

#### **Relevant Literature**

38. This statement adopts, with modification, ASU 2023-09 Improvements to Income Tax Disclosures. The statutory modifications include:

- a. Did not include public entity only disclosures as statutory accounting does not a the private/public company concept. Additionally, the public entity rate reconciliation was determined to be too onerous to apply to all insurance companies.
- a-b. Did not delete the disclosure detailed in paragraph 27 from this statement as the conceptual conflict between the disclosure and FASB Concepts Statement 8, Chapter 8, does not exist within statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/1-24-11-ASU2023-09ImprovementstoIncomeTaxDisclosures.docx>

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

**Issue: Updates to SSAP No. 27**

**Check (applicable entity):**

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** During February 2024, it came to NAIC staffs’ attention that *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures* references *Risk and Financial Instruments with Concentrations of Credit Risk* references *FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet* (FAS 105) which was superseded by *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities* (FAS 133). By accident, FAS 133 did not include any guidance on non-derivative financial instruments with off-balance sheet risk and guidance on this issue had to be re-drafted and added back in during 2001 with *Statement of Position 01-6 Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others* (SOP 01-6) which was then incorporated into FASB codification Topic 825-10 in 2009. Additionally, NAIC staff noted that the annual statement instructions only provide disclosures for derivative swaps, futures, and options, however the guidance in SSAP No. 27 is intended to be applicable to all derivative instruments and financial instruments, except those specifically carved out in FAS 105 paragraphs 14 and 15.

NAIC staff suggest amending SSAP No. 27 to specifically list financial instruments excluded from the SSAP rather than referencing FAS 105, which is significantly out of date as it was superseded by FAS 133 prior to the creation of the Accounting Standards Codification which in turn superseded FAS 133. The only change made to these exclusions from FAS 105 was that financial instruments denominated in foreign currency would now be within scope of SSAP No. 27 as there did not appear to be a compelling reason for this exclusion from off-balance sheet risk reporting as financial instruments in foreign currency were not excluded from the scope of SOP 01-6. Staff also suggests updating the annual statement instructions to add an “Other” derivatives category and disclosure examples and instructions for non-derivative financial instruments with off-balance sheet credit risks.

**Existing Authoritative Literature:**

*SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*, paragraph 18b, requires concentration risk disclosures in accordance with SSAP No. 27.

*SSAP No. 26R—Bonds*, paragraph 30b, requires concentration risk disclosures in accordance with SSAP No. 27.

*SSAP No. 86R—Derivatives*, paragraph 30b, note that derivatives meet the definition of financial instrument under SSAP No. 27, meaning that disclosures for off-balance sheet and concentration of credit risk are required for all derivatives.

*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, glossary, defines a Derivative Financial Instruments as “A derivative instrument (as defined in SSAP No. 86—Derivatives) that is a financial instrument (refer to SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures, paragraph 2).”

*SSAP No. 105R—Working Capital Finance Investments*, paragraph 30b, requires concentration risk disclosures in accordance with SSAP No. 27.

*SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk:*

#### **SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for disclosure of information about financial instruments with off-balance-sheet risk and financial instruments with concentration of credit risk.

#### **SUMMARY CONCLUSION**

2. A financial instrument shall be defined as cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation (i) to deliver cash or another financial instrument to a second entity or (ii) to exchange other financial instruments on potentially unfavorable terms with the second entity; and
- b. Conveys to that second entity a contractual right (i) to receive cash or another financial instrument from the first entity or (ii) to exchange other financial instruments on potentially favorable terms with the first entity.

3. Examples of the financial instruments, which encompass both assets and liabilities recognized and not recognized in the financial statement, to which this statement applies include, but are not limited to, short-term investments, bonds, common stocks, preferred stocks, mortgage loans, derivatives<sup>1</sup>, financial guarantees written, standby letters of credit, notes payable and deposit-type contracts.

#### **Disclosure of Extent, Nature, and Terms of Financial Instruments with Off-Balance-Sheet Risk**

4. For financial instruments<sup>1</sup> with off-balance-sheet risk, except as noted in paragraphs 14 and 15 of *FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk* (FAS 105), a reporting entity shall disclose in the financial statements the following information by class of financial instrument:

- a. The face or contract amount (or notional principal amount if there is no face or contract amount); and
- b. The nature and terms including, at a minimum, a discussion of (i) the credit and market risk of those instruments, (ii) the cash requirements of those instruments, and (iii) the related accounting policy pursuant to the requirements of *APB Opinion No. 22, Disclosure of Accounting Policies*.

5. Additional disclosures related to derivatives and embedded credit derivatives are addressed in *SSAP No. 86—Derivatives*.

#### **Disclosure of Credit Risk of Financial Instruments with Off-Balance-Sheet Credit Risk**

6. For financial instruments<sup>1</sup> with off-balance-sheet credit risk, except as noted in paragraphs 14 and 15 of FAS 105, an entity shall disclose in the financial statements the following information by class of financial instrument:

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<sup>1</sup> The financial instruments captured within this statement shall include financial instruments that contain embedded derivatives that are not separately recognized as financial instruments with derivatives under SSAP No. 86, and that expose the holder to the possibility (however remote) of making future payments.

- a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity; and
- b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

### **Disclosure of Concentrations of Credit Risk of All Financial Instruments**

7. Except as noted in paragraph 14 of FAS 105, a reporting entity shall disclose all significant concentrations of credit risk arising from all financial instruments<sup>1</sup> whether from an individual or group. Group concentrations of credit risk exist if a number of individuals or groups are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The following shall be disclosed in the financial statements about each significant concentration:

- a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration;
- b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity; and
- c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

### **Annual and Quarterly Disclosure Requirements**

8. Refer to the Preamble for further information regarding disclosure requirements. The disclosures in paragraph 7 shall be included in the annual audited statutory financial reports only.

### **Relevant Literature**

9. This statement adopts the provisions of FAS 105 with the following modifications:
  - a. The disclosures required in paragraph 17 of FAS 105 shall distinguish between derivatives entered into for hedging purposes and for other-than-hedging purposes.
  - b. Paragraph 19 of FAS 105 is rejected. It addresses voluntary disclosures not required by this statement.

### **Effective Date and Transition**

10. This statement is effective for years beginning January 1, 2001.

### **REFERENCES**

#### **Relevant Issue Papers**

- *Issue Paper No. 27—Disclosure of Information about Financial Instruments with Concentration of Credit Risk*

- *Issue Paper No. 33—Disclosures about Fair Value of Financial Instruments*
- *Issue Paper No. 85—Derivative Instruments (as it relates to disclosure about financial instruments with off-balance-sheet risk)*

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**  
None.

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

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

**Staff Recommendation:**

**NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP Clarification and expose revisions, as detailed below, to SSAP No. 27 and the Annual Statement Instructions.**

**Staff Review Completed by:**

NAIC Staff – William Oden, February 2024

**Amendments to SSAP No. 27:**

**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for disclosure of information about financial instruments with off-balance-sheet risk and financial instruments with concentration of credit risk.

**SUMMARY CONCLUSION**

2. A financial instrument shall be defined as cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation (i) to deliver cash or another financial instrument to a second entity or (ii) to exchange other financial instruments on potentially unfavorable terms with the second entity; and
- b. Conveys to that second entity a contractual right (i) to receive cash or another financial instrument from the first entity or (ii) to exchange other financial instruments on potentially favorable terms with the first entity.

3. Examples of the financial instruments, which encompass both assets and liabilities recognized and not recognized in the financial statement, to which this statement applies include, but are not limited to, short-term investments, bonds, common stocks, preferred stocks, mortgage loans, derivatives<sup>fn</sup>, financial guarantees written, standby letters of credit, notes payable and deposit-type contracts.

4. The following types of financial instruments are not within the scope of this statement:

- a. Insurance contracts, not held as an investment.
- b. Unconditional purchase obligations.

- c. Obligations and financial instruments within the scope of SSAP No. 92—Postretirement Benefits Other Than Pensions and SSAP No. 102—Pensions.
- d. Substantively extinguished liabilities as defined within SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.
- a-c. Leases as defined within SSAP No. 22R—Leases.

#### **Disclosure of Extent, Nature, and Terms of Financial Instruments with Off-Balance-Sheet Risk**

3.5. For financial instruments with off-balance-sheet risk, ~~except as noted in paragraphs 14 and 15 of FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk (FAS 105), a the~~ reporting entity shall disclose in the financial statements the following information by class of financial instrument:

- a. The face or contract amount (or notional principal amount if there is no face or contract amount); and
- b. The nature and terms including, at a minimum, a discussion of (i) the credit and market risk of those instruments, (ii) the cash requirements of those instruments, and (iii) the related accounting policy pursuant to the requirements of ~~APB Opinion No. 22, Disclosure of Accounting Policies~~ SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures.

4.6. Additional disclosures related to derivatives and embedded credit derivatives are addressed in SSAP No. 86—Derivatives.

#### **Disclosure of Credit Risk of Financial Instruments with Off-Balance-Sheet Credit Risk**

5.7. For financial instruments<sup>fn</sup> with off-balance-sheet credit risk, ~~the, except as noted in paragraphs 14 and 15 of FAS 105, an reporting~~ entity shall disclose in the financial statements the following information by class of financial instrument:

- a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity; and
- b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

#### **Disclosure of Concentrations of Credit Risk of All Financial Instruments**

6.8. ~~The~~ ~~Except as noted in paragraph 14 of FAS 105, a~~ reporting entity shall disclose all significant concentrations of credit risk arising from all financial instruments whether from an individual or group. Group concentrations of credit risk exist if a number of individuals or groups are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The following shall be disclosed in the financial statements about each significant concentration:

- a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration;
- b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity; and



- c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

### Annual and Quarterly Disclosure Requirements

7.9. Refer to the Preamble for further information regarding disclosure requirements. The disclosures in paragraph 7.8 shall be included in the annual audited statutory financial reports only.

### Relevant Literature

8.10. This statement adopts the provisions of FAS 105 with the following modifications:

- a. The disclosures required in paragraph 17 of FAS 105 shall distinguish between derivatives entered into for hedging purposes and for other-than-hedging purposes.
- b. Paragraph 19 of FAS 105 is rejected. It addresses voluntary disclosures not required by this statement.

### Effective Date and Transition

9.11. This statement is effective for years beginning January 1, 2001.

### REFERENCES

#### Relevant Issue Papers

- *Issue Paper No. 27—Disclosure of Information about Financial Instruments with Concentration of Credit Risk*
- *Issue Paper No. 33—Disclosures about Fair Value of Financial Instruments*
- *Issue Paper No. 85—Derivative Instruments (as it relates to disclosure about financial instruments with off-balance-sheet risk)*

### Amendments to Annual Statement Instructions:

#### 16. Information About Financial Instruments With Off-Balance-Sheet Risk And Financial Instruments With Concentrations of Credit Risk

Refer to *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures* for accounting guidance.

#### Instruction:

For financial instruments with off-balance-sheet risk, a reporting entity shall disclose in the financial statements the following information by class of financial instrument:

- (1) The face or contract amount (or notional principal amount if there is no face or contract amount).
- (2) The nature and terms, including, at a minimum, a discussion of (i) the credit and market risk of those instruments, (ii) the cash requirements of those instruments, and (iii) the related accounting policy pursuant to the requirements of *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* ~~APB Opinion No. 22, Disclosure of Accounting Policies.~~

- (3) The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity.
- (4) The entity’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

Illustration:

**THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.**

**(NOTE: THIS DOES NOT INCLUDE THE ENDING NARRATIVE.)**

- (1) The table below summarizes the face amount of the Company’s financial instruments with off-balance-sheet risk.

	<u>Assets</u>		<u>Liabilities</u>	
	20__	20__	20__	20__
<u>Derivatives Contracts:</u>				
a. Swaps	\$ _____	\$ _____	\$ _____	\$ _____
b. Futures	\$ _____	\$ _____	\$ _____	\$ _____
c. Options	\$ _____	\$ _____	\$ _____	\$ _____
d. Other	\$ _____	\$ _____	\$ _____	\$ _____
<b>e. Total (a+b+c+d)</b>	<b>_____ \$</b>	<b>_____ \$</b>	<b>_____ \$</b>	<b>_____ \$</b>
<u>Other Financial Instruments:</u>				
<u>a. Loan</u>				
Commitments	\$ _____	\$ _____	\$ _____	\$ _____
<u>b. Standby Letters</u>				
of Credit	\$ _____	\$ _____	\$ _____	\$ _____
<u>c. Financial</u>				
Guarantees	\$ _____	\$ _____	\$ _____	\$ _____
d. Other	\$ _____	\$ _____	\$ _____	\$ _____
<b>e. Total (a+b+c+d)</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>

See Schedule DB of the Company’s annual statement for additional detail on derivative contracts.

- (2) The Company uses interest rate swaps to reduce market risks from changes in interest rates and to alter interest rate exposures arising from mismatches between assets and liabilities. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Generally, no cash is exchanged at the outset of the contract and either party makes no principal payments. These transactions

are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date.

Under exchange-traded currency futures and options, the Company agrees to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts. The parties with whom the Company enters into exchange-traded futures and options are regulated futures commissions merchants who are members of a trading exchange.

- (3) The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of interest rate swaps and currency swaps is represented by the fair value (market value) of contracts with a positive fair value (market value) at the reporting date. Because exchange-traded futures and options are affected through a regulated exchange and positions are marked to market on a daily basis, the Company has little exposure to credit-related losses in the event of nonperformance by counterparties to such financial instruments.
- (4) The Company is required to put up collateral for any futures contracts that are entered. The amount of collateral that is required is determined by the exchange on which it is traded. The Company currently puts up cash and U.S. Treasury Bonds to satisfy this collateral requirement.

The current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date. Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral where appropriate and customary. The Company also attempts to minimize its exposure to credit risk through the use of various credit monitoring techniques. Approximately \_\_\_\_% of the net credit exposure for the Company from derivative contracts is with investment-grade counterparties.

- (5) The Company's credit exposure related to outstanding derivatives contracts reported in "Other" consist of Treasury Lock and Forward contracts of \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively.
- (6) The Company's non-derivative off-balance sheet exposures consist of loan commitments, standby letters of credits, and financial guarantees and in accordance with Statutory Accounting Principles are not recorded on the Company's balance sheet. The amounts shown do not necessarily reflect actual future settlement value but rather the maximum liability the Company may incur from these contracts. The amounts shown for loan commitments and letters of credit represent the total credit available to be drawn upon with these instruments. The amounts shown for financial guarantees represent the Company's guarantee to pay the balance of the Affiliate's note payable due to an unrelated shareholder. The Company does not anticipate any material losses from its off-balance sheet arrangements.
- (7) Approximately \_\_\_\_% of the Company's all premium receivables are due from policyholders which reside in the state of Missouri. The Company is in good standing with the Missouri Department of Insurance and is not aware of any circumstances which would impair its ability to continue operating within the state of Missouri. Approximately, \_\_\_\_% of mortgage loan assets, totaling \$ \_\_\_\_\_, are due from a single borrower which operates in the biomedical industry within the state of Kansas. Were there to be a downturn within this economic space and the borrower becomes delinquent, the Company would have the ability to seize collateral of \$ \_\_\_\_\_. The borrower is current on its mortgage payments and

the Company is not aware of any circumstances which would indicate the borrower will be unable to meet its debt service obligations.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/J-24-12-UpdatestoSSAPNo.27.docx>

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

**Issue: Update SSAP No. 107 Disclosures**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

This agenda item recommends updates to disclosure requirements in *Statement of Statutory Accounting Principles No. 107—Risk-Sharing Provisions of the Affordable Care Act* (SSAP No. 107) to remove disclosures related to transitional reinsurance and for the risk corridors programs which have expired.

In December 2014, the NAIC Statutory Accounting Principles Working Group (SAPWG) issued SSAP No. 107 to provide accounting and disclosure guidance for the three risk-sharing provision programs of the Affordable Care Act (the “3Rs programs”). SSAP No. 107 covers the three risk sharing programs that were initially part of the Affordable Care Act, a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program. Since that time, the 3Rs programs have changed significantly. Most notably, the temporary transitional reinsurance and risk corridors programs terminated at the end of 2016.

SSAP No. 107 introduced significant financial statement disclosure requirements for the 3Rs programs. The disclosures are required by SSAP No. 107, paragraphs 60-62. Exhibit B of SSAP No. 107 illustrates the roll-forward disclosure required by paragraph 61. These disclosure requirements are currently satisfied through detailed data tables included in Footnote 24E of the quarterly and annual financial statements.

Despite the passage of time and the termination of two of the 3Rs programs, the disclosure requirements outlined in SSAP 107 and the disclosure instructions for footnote 24E have not been updated or modified since inception. As a result, companies originally subject to the 3Rs programs are still required by SSAP No. 107 to include several tables in Footnote 24E, even though the majority of the information disclosed is either zero or blank because two of the programs were terminated several years ago. This agenda item proposal removal of the disclosures for the expired programs and also removal of the related roll forward illustration in Exhibit B of SSAP No. 107 for the expired programs.

**Existing Authoritative Literature:**

**SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures**

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements by program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. through 60.c. Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

- a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)
  - ii. Risk adjustment user fees payable for ACA Risk Adjustment
  - iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)
  - iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
  - v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- b. ACA Transitional Reinsurance Program
- i. Amounts recoverable for claims paid due to ACA Reinsurance
  - ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)
  - iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance
  - iv. Liabilities for contributions payable due to ACA Reinsurance - not reported as ceded premium
  - v. Ceded reinsurance premiums payable due to ACA Reinsurance
  - vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance
  - vii. Ceded reinsurance premiums due to ACA Reinsurance
  - viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments
  - ix. ACA Reinsurance Contributions – not reported as ceded premium
- c. ACA Temporary Risk Corridors Program
- i. Accrued retrospective premium due from ACA Risk Corridors
  - ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors
  - iii. Effect of ACA Risk Corridors on net premium income (paid/received)
  - iv. Effect of ACA Risk Corridors on change in reserves for rate credits

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (notwithstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

Exhibit B of SSAP No. 107 illustrates the roll forward required by the SSAP No. 107. paragraph 61 of the disclosures.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

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

**Convergence with International Financial Reporting Standards (IFRS):**Not Applicable

#### **Sponsor Recommendation**

We are respectfully requesting SAPWG to re-evaluate and amend the disclosure requirements of SSAP 107 and request BWG to update the quarterly and annual financial statement instructions for Footnote 24E to eliminate certain tables, or portions of tables, that are no longer applicable. Specifically, we are requesting elimination of the portions of each table related to the transitional reinsurance and risk corridors programs that are no longer valid.

Sherry Gillespie, Senior Director - Regulatory Finance  
UnitedHealthcare  
2884 School Ln, Green Bay, WI 54313  
February 1, 2024

**Staff Review Completed by:** Robin Marcotte - NAIC Staff

#### **Staff Recommendation:**

**NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 107—*Risk-Sharing Provisions of the Affordable Care Act* as illustrated below. The revisions will remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. NAIC staff recommends that the Working Group direct a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.**

**NAIC staff is aware that some states have federal waivers to operate reinsurance programs, but not all of the federal reinsurance waivers operate the same as the original transition program. To the extent the Working**

Group decides that new disclosures are needed for these reinsurance waiver programs, a future disclosure can be developed separately.

*SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures*

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by-for the permanent risk adjustment~~ program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.c.~~ Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)—
- ii. Risk adjustment user fees payable for ACA Risk Adjustment—
- iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)—
- iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
- v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)

~~b. ACA Transitional Reinsurance Program~~

- ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
- ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)~~
- ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance—~~
- ~~iv. Liabilities for contributions payable due to ACA Reinsurance— not reported as ceded premium~~
- ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
- ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance—~~
- ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
- ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~
- ~~ix. ACA Reinsurance Contributions— not reported as ceded premium~~

~~c. ACA Temporary Risk Corridors Program~~

- ~~i. Accrued retrospective premium due from ACA Risk Corridors~~
- ~~ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors—~~
- ~~iii. Effect of ACA Risk Corridors on net premium income (paid/received)~~



~~iv. Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions for the risk adjustment program specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk ~~corridors~~ adjustment balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

**EXHIBIT B – ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION**

Receivables are reflected gross of any nonadmission for this illustration.

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances	9	Cumulative Balance from Prior Years (Col 1 – 3 + 7)	Cumulative Balance from Prior Years (Col 2 – 4 + 8)
	1	2	3	4	5	6	7	8	9	10	11
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
<b>a. Permanent ACA Risk Adjustment Program</b>											
1. Premium adjustments receivable	4,000,000		3,000,000		1,000,000		-800,000		A	200,000	0
2. Premium adjustments (payable)		8,000,000		9,000,000		-1,000,000		1,000,000	B		0
<b>3. Subtotal ACA Permanent Risk Adjustment Program</b>	<b>4,000,000</b>	<b>8,000,000</b>	<b>3,000,000</b>	<b>9,000,000</b>	<b>1,000,000</b>	<b>-1,000,000</b>	<b>-800,000</b>	<b>1,000,000</b>		<b>200,000</b>	<b>0</b>
<b>b. Transitional ACA Reinsurance Program</b>											
1. Amounts recoverable for claims paid	22,000,000		15,000,000		7,000,000		-7,000,000		C	0	
2. Amounts recoverable for claims unpaid (contra liability)	8,000,000		9,000,000		-1,000,000		990,000		D	-10,000	
3. Amounts receivable relating to uninsured plans	3,000,000		2,800,000		200,000		-100,000		E	100,000	
4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium		90,000		75,000		15,000		-14,000	F		1,000
5. Ceded reinsurance premiums payable		100		200		-100		100	G		0
6. Liability for amounts held under uninsured plans		125,000		15,000		110,000		90,000	H		200,000
<b>7. Subtotal ACA Transitional Reinsurance Program</b>	<b>33,000,000</b>	<b>215,100</b>	<b>26,800,000</b>	<b>90,200</b>	<b>6,200,000</b>	<b>124,900</b>	<b>-6,110,000</b>	<b>76,100</b>		<b>90,000</b>	<b>201,000</b>
<b>e. Temporary ACA Risk Corridors Program</b>											
1. Accrued retrospective premium	12,000,000		14,000,000		-2,000,000		1,750,000		I	-250,000	
2. Reserve for rate credits or policy experience rating refunds		150,000		250,000		-100,000		100,000	J		0
<b>3. Subtotal ACA Risk Corridors Program</b>	<b>12,000,000</b>	<b>150,000</b>	<b>14,000,000</b>	<b>250,000</b>	<b>-2,000,000</b>	<b>-100,000</b>	<b>1,750,000</b>	<b>100,000</b>		<b>-250,000</b>	<b>0</b>
<b>d. Total for ACA Risk-Sharing Provisions</b>	<b>49,000,000</b>	<b>8,365,100</b>	<b>43,800,000</b>	<b>9,340,200</b>	<b>5,200,000</b>	<b>-975,100</b>	<b>-5,160,000</b>	<b>1,176,100</b>		<b>40,000</b>	<b>201,000</b>

Explanation of adjustments:

- A. Adjusted due to federal audit.
- B. Adjusted because of revised participant count.
- C. Adjusted due to poor experience of other participants in the reinsurance pool.
- D. Revised risk score information in the state of substantially impacted risk scores.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/K-24-13-UpdateSSAPNo.107Disclosures.docx>

**NAIC Accounting Practices and Procedures Manual  
Editorial and Maintenance Update  
March 16, 2024**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (Manual) such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
Removal of “Revised” and “R” identifiers from SSAP titles and references within the Manual.	Remove the “Revised” and “R,” previously intended to identify a SSAP that has been substantively revised, from SSAP titles and SSAP references within the Manual. NAIC staff consider the “Revised” and “R” identifiers to no longer be useful, as several SSAPs have now had multiple substantive revisions after their initial adoption.

**Staff Recommendation:**

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP Clarification, and expose editorial revisions as illustrated within.

**Removal of “R” identifier from SSAP titles and references within the AP&P Manual**

Remove the “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Manual. NAIC staff consider the “Revised” and “R” identifier to no longer be useful. The following SSAPs currently have an “Revised” and “R” identifier in the title.

- 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*
- 5R—Liabilities, Contingencies and Impairments of Assets*
- 16R—Electronic Data Processing Equipment and Software*
- 21R—Other Admitted Assets*
- 22R—Leases*
- 26R—Bonds*
- 30R—Unaffiliated Common Stock*
- 32R—Preferred Stock*
- 35R—Guaranty Fund and Other Assessments*
- 40R—Real Estate Investments*
- 41R—Surplus Notes*
- 43R—Loan-Backed and Structured Securities*
- 51R—Life Contracts*
- 54R—Individual and Group Accident and Health Contracts*
- 61R—Life, Deposit-Type and Accident and Health Reinsurance*
- 62R—Property and Casualty Reinsurance*
- 94R—Transferable and Non-Transferable State Tax Credits*
- 100R—Fair Value*
- 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
- 104R—Share-Based Payments*
- 105R—Working Capital Finance Investments*

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National\\_Meetings/A\\_National\\_Meeting\\_Materials/2024/03-16-24\\_Spring\\_National\\_Meeting/Meeting/L-24-14EP\\_Spring\\_2024.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National_Meetings/A_National_Meeting_Materials/2024/03-16-24_Spring_National_Meeting/Meeting/L-24-14EP_Spring_2024.docx)

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

**Issue: ASU 2023-06 – Disclosure Improvements**

**Check (applicable entity):**

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** In October 2023, FASB issued *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*, in response to a referral from SEC Release No. 33-10532, *Disclosure Update and Simplification*, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of Topics. Many of the amendments allow users to more easily compare entities subject to the SEC’s existing disclosures with those entities that were not previously subject to the SEC’s requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies. It was also noted by Staff that the effective date of ASU 2023-06 is unusual as both its timing, and ultimately its implementation within the Codification, is dependent on whether the SEC removes the related disclosures from Regulation S-X, or Regulation S-K becomes effective, prior to June 30, 2027. For this agenda item, Staff believes that the occurrence, or non-occurrence, of future SEC actions is not relevant to discussion concerning the proposed disclosures' merits for inclusion in the statutory accounting framework. If needed, the Working Group will address the effective date of adoption at a later stage.

**Existing Authoritative Literature:**

The table starting on page six summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting.

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

Agenda item 2024-04: Conforming Repurchase Agreements was developed in 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.

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

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

**Staff Recommendation:**

NAIC staff recommends that the Working Group expose revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The disclosures revisions we have recommended are:

- Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.

- Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

**NAIC staff also requests regulator and interested party input on whether the accounting policy disclosure for cash flows associated with derivatives, ASC 230-10-50-9, should also be adopted for statutory accounting purposes.** This would require companies to provide an accounting policy disclosure for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

**Staff Review Completed by:**

NAIC Staff – William Oden, February 2024

**Status:**

On December 1, 2023, the Statutory Accounting Principles (E) Working Group deferred exposure of this agenda item as some items were noted which require further consideration for potential inclusion in statutory accounting.

***Proposed Revisions to SSAP No. 15—Debt and Holding Company Obligations***

22. For unused commitments and lines of credit, the entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:

- a. The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).
- a-b. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

**Relevant Literature**

32. This statement adopts, with modification, ASU 2023-06, Disclosure Improvements. Statutory modifications include:

- a. Extending the disclosure requirements to both short-term and long-term unused commitments and lines of credit, whereas ASU 2023-06 only required these disclosures for long-term unused commitments and short-term lines of credit.
- b. The requirement to disclose the weighted-average interest rate of short-term borrowings was rejected for statutory accounting purposes.

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

28. A reporting entity shall disclose the following<sup>fn</sup>:

- a. For Repurchase and Reverse Repurchase Agreements:
  - i. 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:

- (a) Whether repo agreements are bilateral and/or tri-party trades;
- (b) 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<sup>fn</sup>;
- (c) 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.)

~~(e)~~(d) If as of the date of the most recent balance sheet the aggregate carrying amount of reverse repurchase agreements (securities or other assets purchased under agreements to resell) exceeds 10% of total admitted assets, the assets shall be separately disclosed. The entity shall also disclose whether there are any provisions, beyond the collateral requirements in paragraph 113, to ensure that the market value of the underlying assets remains sufficient to protect the entity in the event that the counterparty defaults and, if so, the nature of those provisions. **Staff Note:** *The Supplemental Investment Risks Interrogatories (Appendix A-01) does require reporting of the amount and percentage of admitted assets subject to reverse repurchase agreements. Staff is of the opinion that if the assets subject to reverse repurchase agreements exceeded 10% then this fact is significant enough to also be included in the notes the financial statements.*

- ii. For repurchase transactions accounted for as secured borrowings<sup>fn</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
  - (a) 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.
  - (b) 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.
  - (c) Liability recognized, including accrued interest, 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.
- iii. For reverse repurchase transactions accounted for as secured borrowings<sup>fn</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
- (a) 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.
  - (b) 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.
  - (c) 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.)
  - (d) Recognized liability, including accrued interest, 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.)
- iv. For repurchase transactions accounted for as a sale<sup>fn</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
- (a) 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.

- (b) 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.
  - (c) The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction.
- v. For reverse repurchase transactions accounted for as sale<sup>fn</sup>, the maximum amount and end balance as of each reporting period (quarterly and annual):
  - (a) 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.
  - (b) 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).
- vi. If as of the date of the most recent balance sheet the amount at risk under repurchase agreements or the amount at risk under reverse repurchase agreements with any individual counterparty or group of related counterparties exceeds 10% of adjusted capital and surplus, an entity shall disclose the name(s) of those counterparties or group of related counterparties, the amount at risk with each, and the weighted-average maturity of the repurchase agreements or reverse repurchase agreements with each.
  - (a) For the purposes of this statement, the amount at risk under repurchase agreements is the excess of the carrying amount (or market value, if higher than the carrying amount or if there is no carrying amount) of the securities or other assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability (adjusted for accrued interest).
  - (a)(b) For the purposes of this statement, the amount at risk under reverse repurchase agreements is the excess of the carrying amount of the reverse repurchase agreements over the market value of assets delivered in accordance with the agreements by the counterparty to an entity (or to a third-party agent that has affirmatively agreed to act on behalf of the entity) and not returned to the counterparty, except in exchange for their approximate market value in a separate transaction.

## Relevant Literature

135. This statement adopts, with modification, ASU 2023-06, Disclosure Improvements. Statutory modifications include:



- a. It is not feasible to require separate reporting of assets subject to reverse repurchase agreements in excess of 10% of total assets. Instead, this was modified to require separate disclosure and the threshold was modified to be "10% of total admitted assets".
- b. The disclosure threshold for the amount at risk under repurchase agreements or reverse repurchase agreements was modified to be 10% of adjusted capital and surplus, rather than 10% of total equity.
- c. The requirement to disclose the weighted-average interest rate of repurchase liabilities and related repurchase liabilities was rejected for statutory accounting purposes.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/M-23-26-ASU2023-06-DisclosureImprovements.docx>

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Statement of Cash Flows—Overall	230-10	Requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.	50-9	NAIC staff noted that this disclosure may be duplicative of <i>SSAP No. 86—Derivatives</i> , paragraph 63a.iv. However, disclosure of the accounting policy for the presentation of cash flows from derivatives is not specifically required by this paragraph and the statutory statement of cash flows does not currently break out cash flows from derivatives.  <b>Staff has requested feedback from regulators and interested parties on the potential usefulness of this disclosure for statutory accounting purposes.</b>
Accounting Changes and Error Corrections—Overall	250-10	Requires that when there has been a change in the reporting entity, the entity disclose any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements.	50-6	This disclosure is duplicative of <i>SSAP No. 3—Accounting Changes and Corrections of Errors</i> , paragraph 13.  <b>This update is not applicable – no action required.</b>
Earnings Per Share—Overall	260-10	Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures	50-1 55-51 55-52	<b>This update is not applicable – no action required.</b>

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		should be made during interim periods. Amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation.		
Interim Reporting— Overall	270-10	Conforms to the amendments made to Topic 250.	45-12 45-19 50-1	<b>This update is not applicable – no action required.</b>
Commitments— Overall	440-10	Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized.	50-1	This disclosure is duplicative of <i>SSAP No. 1—Accounting Policies, Risks &amp; Uncertainties, and Other Disclosures</i> , paragraph 23b.  <b>This update is not applicable – no action required.</b>
Debt—Overall	470-10	Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. Entities that are not public business entities are not required to provide information about the weighted-average interest rate.	15-1 50-6 5-7	Staff do not recommend adoption of the weighted-average interest rate calculation for statutory accounting purposes. Due to the complexity of this computation, this disclosure is only required for public entities under GAAP. As SAP does not have the public/private entity distinction, adoption of this disclosure would be applicable to all insurance entities. This disclosure is not considered necessary in light of existing debt SAP disclosures and does not provide enough benefit to offset the cost of implementing

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
				such a potentially complex calculation.  <b>We recommend adoption, with modification, of the disclosures unused LOC and commitment disclosures.</b>
Equity—Overall	505-10	Requires entities that issue preferred stock to disclose preference in involuntary liquidation if the liquidation preference is other than par or stated value.	50-4	This disclosure is duplicative of <i>SSAP No. 72—Surplus and Quasi-Reorganizations</i> , paragraph 22b.  <b>This update is not applicable – no action required.</b>
Derivatives and Hedging—Overall	815-10	Adds inter-codification reference to 230-10-50-9 for disclosure of cash flows associated with derivative instruments.	50-8C	<b>This update is not applicable – no action required.</b>
Transfers and Servicing—Secured Borrowing and Collateral	860-30	Requires: a. That accrued interest be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions. b. Separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets. c. Disclosure of the weighted-average interest rates of repurchase liabilities for public business entities. d. Disclosure of amounts at risk with an individual counterparty if that	15-1 45-2 45-2A 45-3 50-7 50-9 thru 12 55-4	<b>We recommend adoption, with modification, of the disclosures in bullets a., b., d., and e. (see Abbreviated Summary of Changes)</b>  <b>The disclosure in bullet c. is not recommended for adoption within SAP – no action required.</b>

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		amount exceeds more than 10 percent of stockholder’s equity. e. Disclosure for reverse repurchase agreements that exceed 10 percent of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.		
Extractive Activities— Oil and Gas—Notes to Financial Statements	932-235	Requires that paragraphs 932-235-50-3 through 50-36 be applicable for each annual period presented in the financial statements.	50-2A	<b>This update is not applicable – no action required.</b>
Financial Services— Investment Companies— Investment Company Activities	946-20	Requires that investment companies disclose the components of capital on the balance sheet.	50-11 50-12	<b>This update is not applicable – no action required.</b>
Real Estate—Real Estate Investment Trusts—Overall	974-10	Requires disclosure for annual reporting periods of the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital) for a real estate investment trust.	50-1	<b>This update is not applicable – no action required.</b>
Generally Accepted Accounting Principles—Overall	105-10	Adds in transition and open effective date information.	65-7 65-8	<b>This update is not applicable – no action required.</b>

**Spring National Meeting - Review of GAAP Exposures for Statutory Accounting:**

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

FASB Exposures: [Exposure Documents and Public Comment Documents \(fasb.org\)](https://www.fasb.org/exposures)

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Proposed Statement of Financial Accounting Concepts No. 8— <i>Conceptual Framework for Financial Reporting—Chapter 6: Measurement</i>	March 20, 2024
Proposed Accounting Standards Update— <i>Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments (a consensus of the Emerging Issues Task Force)</i>	March 18, 2024

**Proposed Statement of Financial Accounting Concepts No. 8—Conceptual Framework for Financial Reporting—Chapter 6: Measurement**

The Conceptual Framework establishes the concepts that underlie financial reporting. The Conceptual Framework is a coherent system of concepts that flow from the objective of general-purpose financial reporting. The fundamental concepts address the selection of transactions and other events and circumstances to be faithfully represented in general purpose financial reporting. In particular, the fundamental concepts address the items that meet the definitions of elements of financial statements; how those items should be recognized, measured, and disclosed; and how they should be summarized and presented in financial statements.

Chapter 6 sets forth concepts on how items recognized in financial statements should be measured and provides guidance on when a specific measurement system should be applied. Measurement is anchored in prices—both entry prices and exit prices. Prices objectively measure the financial effects of transactions and other events and circumstances on the reporting entity and, consequently, are fundamental in depicting recognized items in general purpose financial reporting.

This chapter describes two relevant and representationally faithful measurement systems: the entry price system and the exit price system. The prices in those measurement systems are defined as follows: a. Entry price: The price paid (the value of what was given up) to acquire an asset or received to assume a liability in an exchange transaction b. Exit price: The price received (the value of what was received) to sell an asset or paid to transfer or settle a liability in an exchange transaction.

The conceptual premise in any measurement system is that the reported amounts of assets should not be more than what is recoverable, by disposition or use, and the reported amount of liabilities should not be less than what is settleable, by transfer or satisfaction. A measurement amount that does not meet the recoverability or settleability premise provides less predictive or confirmatory value and, consequently, yields less relevant financial information.

Choosing between the entry price system and the exit price system should be guided by whichever system best meets the objective of general-purpose financial reporting for a particular asset or liability being measured. Determining which measurement system is more relevant depends on the asset or liability itself and how that asset or liability is used or settled.

The Board is seeking input from individuals and organizations to comment on all matters in the Exposure Draft, particularly on the questions below. Comments are requested from those who agree with the proposed concepts as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed concepts are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree with the proposed underlying premise that to have predictive value the reported amounts of assets should not be more than what is recoverable, by disposition or use, and the reported amounts of liabilities should not be less than what is settleable, by transfer or satisfaction? Please explain why or why not.

Question 2: Do you agree that measurement is anchored in prices, as described in paragraphs M5 and M6? Do you also agree that transactions and other events and circumstances affecting the entity should ultimately be measured in prices (entry prices and exit prices)? Please explain why or why not.

Question 3: Do you agree with the proposed description and features of the entry price system as described in paragraphs M10–M14? Please explain why or why not.

Question 4: Do you agree with the proposed description and features of the exit price system as described in paragraphs M15–M19? Please explain why or why not.

Question 5: Do you agree that the entry price and exit price systems, as explained in paragraph M7, are the only two relevant and representationally faithful measurement systems that would meet the objective of general-purpose financial reporting? Please explain why or why not.

Question 6: Do you agree that the entry price system would likely result in more relevant measurements when entities have unique exit prices for the same asset or liability? Please explain why or why not.

Question 7: Do you agree that the exit price system (specifically, an exit price that incorporates market participant cash flows) would likely result in more relevant measurements when entities have the same exit price for the same asset or liability? Please explain why or why not.

**Staff Review and Commentary:**

Comment deadline is March 30, 2024

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

**Proposed Accounting Standards Update—Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments (a consensus of the Emerging Issues Task Force)**

Under current GAAP, the guidance on induced conversions applies only to conversions that include the issuance of all equity securities issuable pursuant to the conversion privileges provided in the terms of the debt at issuance. Current GAAP does not address how this criterion should be applied to the settlement of a convertible debt instrument that does not require the issuance of equity securities upon conversion (for example, a convertible debt instrument with a cash conversion feature). Current GAAP also does not address how the incorporation, elimination, or modification of a volume-weighted average price (VWAP) formula interacts with this criterion, including when such changes could result in the holder receiving less cash or fewer shares than if the debt instrument had been settled in accordance with the conversion privileges provided in the terms of the instrument (prior to any changes to induce conversion). Stakeholders also have noted that, under current GAAP, it is not clear whether the guidance on induced conversions can be applied to the settlement of a convertible debt instrument that is not currently convertible. The amendments in this proposed Update would clarify the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion. Under the proposed amendments, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer would be required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. An entity would assess whether this criterion is satisfied as of the date the inducement offer is accepted by the holder. If, when applying this criterion, the convertible debt instrument had been modified (without being deemed substantially different) within the one-year period leading up to the offer acceptance date, then an entity would compare the terms provided in the inducement offer with the terms that existed one year before the offer acceptance date. The proposed amendments would not change the other existing criteria that are required to be satisfied to account for a settlement transaction as an induced conversion.

The amendments in this proposed Update also would make additional clarifications to assist stakeholders in applying the proposed guidance. Under the proposed amendments, the incorporation, elimination, or modification of a VWAP formula would not automatically cause a settlement to be accounted for as an extinguishment; an entity would instead assess whether the form and amount of conversion consideration are preserved (that is, provided for in the inducement offer) using the fair value of an entity's shares as of the offer acceptance date. The amendments in this proposed Update also would clarify that the induced conversion guidance can be applied to a convertible debt instrument that is not currently convertible so long as it had a substantive conversion feature as of its issuance date and is within scope of the guidance in Subtopic 470-20.

The amendments in this proposed Update would permit an entity to apply the new guidance on either a prospective or a retrospective basis. Under the prospective transition approach, an entity would apply the amendments in this proposed Update to any settlements of convertible debt instruments that occur after the effective date of the guidance. Under the retrospective transition approach, an entity would recast prior periods and recognize a cumulative-effect adjustment to equity as of the later of the following dates: (1) the beginning of the earliest period presented and (2) the date the entity adopted the amendments in Update 2020-06. That is, an entity would not be permitted to apply the amendments in this proposed Update retrospectively to settlements that occurred prior to the adoption of the amendments in Update 2020-06 (including settlements occurring within periods that were recast retrospectively under the full retrospective transition approach permitted by Update 2020-06). The effective date and whether early application should be permitted will be determined after stakeholder feedback on this proposed Update has been considered.

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.



Question 1: Do you agree with the proposed amendments to the induced conversion criterion in paragraph 470-20-40-13(b) that would require that an inducement offer preserve the consideration (in form and amount) issuable pursuant to conversion privileges provided in the terms of the debt instrument? Please explain why or why not.

Question 2: Do you agree that the proposed induced conversion criterion in paragraph 470-20-40-13(b) should be assessed as of the date the inducement offer is accepted by the convertible debt holder? Please explain why or why not.

Question 3: Do you agree with the proposed amendments in paragraph 470-20-40-13A(c) that, if the debt has been exchanged or modified (without being deemed to be substantially different) within the one-year period preceding the offer acceptance date, then the conversion privileges provided in the debt terms that existed one year before the offer acceptance date (rather than the conversion privileges provided in the terms of the debt instrument) should be used for the induced conversion assessment? If not, please explain why and state which alternative approach you would support (see paragraph BC52 for other approaches considered by the Task Force, including a principle-based approach).

Question 4: Do you agree that all convertible debt instruments, including convertible debt instruments that are not currently convertible, should be eligible for induced conversion accounting if they contained a substantive conversion feature at issuance and the other criteria in paragraph 470-20-40-13 are met? Please explain why or why not.

Question 5: Would the proposed amendments provide decision-useful information? Are the proposed amendments clear and operable? Please explain why or why not.

Question 6: The proposed transition requirements would allow entities to apply the proposed amendments on either a prospective or a retrospective basis. Would the information required to be disclosed under the proposed transition method be decision useful? Please explain why or why not. Are the proposed transition requirements operable? If not, why not and what transition method would be more appropriate and why?

Question 7: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain why or why not.

**Staff Review and Commentary:**

Comment deadline is March 18, 2024

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

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Meeting/N-ReviewofGAAPExposures.docx>

**MEMORANDUM**

TO: Statutory Accounting Principles (E) Working Group

FROM: NAIC Staff

DATE: February 13, 2024

RE: IMR Ad Hoc Group – Discussion Update

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The intent of this memorandum is to provide an update on the discussions that have occurred at the IMR Ad Hoc Group. This group is discussing the interest maintenance reserve (IMR) to establish a framework on the long-term project to review and determine appropriate treatment on IMR under the statutory accounting framework, including consideration of net negative (disallowed) IMR. Participants of the group include regulators representing SAPWG, Life Actuarial (A) Task Force and the Life Risk-Based Capital Working Group, along with industry representing both accounting and actuarial interests.

The IMR Ad Hoc Group conducted their first meeting on Oct. 2, 2023, and has met regularly, approximately every other week. The discussions have focused on 1) information of how IMR impacts actuarial calculations, 2) the definition and purpose of IMR, 3) the impact of derivatives on IMR, and 4) how reinsurance impacts IMR. The IMR Ad Hoc group has meetings scheduled until the 2024 Summer National Meeting. A key element expected as part of the future discussions will be more detail on the derivatives impacting IMR. These discussions are expected to include concepts for how companies determine effectiveness for these “economically effective” derivatives that do not qualify as “accounting effective” under *SSAP No. 86—Derivatives* as well as the concepts reporting entities have used in determining the amortization timeframe for IMR generated from derivative gains/losses.

NAIC staff will be compiling information on the reported 2023 year-end IMR in the statutory financial statements, including the extent that insurance reporting entities have moved to a net negative (disallowed) IMR position, and the extent (if any) companies have exceeded the 10% admittance threshold. NAIC staff notes that the activity causing a net negative IMR position may be driven more from derivative activity than from the selling of debt instruments. NAIC staff anticipates a review of the narrative disclosures required under *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* will provide further information regarding the unamortized derivative gains/losses and how those are impacting the net negative IMR balance, as well as information on IMR captured in the general account and separate account blank. NAIC staff will share information on the reported financial statement info with regulators as soon as possible.

Key topics from the IMR Ad Hoc group discussions are detailed on the following page. Julie Gann, NAIC staff, can be contacted with any questions on the group discussions or on the accounting/reporting of IMR.

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

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**Key IMR Ad Hoc Group Discussion Topics:**

*Note: All elements are subject to future discussion / broad exposure.*

- The treatment of IMR should not be treated differently between PBR and non-PBR blocks even though some of the potential PBR reserves have unlocked asset returns. This is because under PBR the reserve reported could be based on the deterministic reserve (DR), stochastic reserve (SR), or the net premium reserve valuation based on the outcome of current calculations. As companies would not know what their future reserve calculation method would be under PBR, the IMR should not be adjusted on the balance sheet but should rather come into consideration within the modeled reserve calculation (i.e., DR and SR).
- The tentative definition and purpose of IMR presented by the ACLI:
  - IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin) and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).
  - IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).
  - Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures Manual and Valuation Manual.

To accurately assess whether a company can fulfill its obligations, it must present its liabilities and assets on a financially integrated and consistent basis. If they are inconsistent, then the annual statement will not reveal the degree to which assets exceed liabilities and neither regulators nor management can appropriately determine the risk of insolvency for the company. Taken further, limiting IMR balances creates an inconsistency within the Statutory framework and would generate false solvency signals for regulators. Limiting IMR balances can also disincentivize prudent interest rate risk management. By appropriately recognizing fixed income gains and losses within the Statutory framework, the IMR prevents the misrepresentation of surplus from changes in interest rates.

- Existing derivative provisions for accounting hedge effectiveness do not encompass the *duration* risk of life insurance products, where an interest rate change can impact assets and liabilities differently. Per industry comments, the ability to hedge these risks (with treatment through IMR) allows insurers to manage the risk. There is recognized variation on practices and approaches on assessing economic hedge effectiveness and the amortization into IMR, so establishing uniform concepts is a key component.
- As a broad concept, IMR retained after a reinsurance transaction should only reflect previously realized gains/losses from assets and derivatives that pertain to retained business. Existing guidance for ceded and recaptured reinsurance, as well as specific components detailed in the annual statement instructions, needs to be reassessed and updated. (For example, assuming non-U.S. reinsurers are not recognizing IMR, which then hinders the concept of transferring IMR back to the cedent in a recapture.)