Statutory Accounting Principles (E) Working Group
Fall National Meeting
Comment Letters Received

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D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
201-743-7221
Email: Rosemarie.Albrizio@equitable.com

September 29, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment with Comments due September 29

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment during the NAIC National Meeting in Seattle by the Statutory Accounting Working Group (the Working Group).

Ref # 2019-21: Principles-Based Bond Definition

The Working Group exposed revisions to SSAP No. 21R for debt securities that do not qualify as bonds, including the accounting for residual tranches, as well as an Issue Paper to detail historical discussions on the bond project. Interested parties have no comments on the Issue Paper.

Interested parties met with NAIC Staff to discuss SSAP No. 21R issues, other than the accounting for residual tranches, and agreed there are issues that need clarification and/or consistency between SSAP No. 21R, SSAP No. 26R, SSAP 43R, and the recently adopted language on the definition of residual tranches in SSAP No. 48.

As these are nuanced and interrelated changes still subject to the best approach in achieving clarification and/or consistency, it was agreed it was most efficient to work through the changes collaboratively especially given the significant agreement on the end results that are trying to be achieved. As part of this collaboration, interested parties would also like to discuss with NAIC staff and regulators the concept of audit requirements for residual tranches. The remainder of interested parties' comments relate to the proposed accounting for residual tranches.

In response to the residual accounting proposal forwarded by regulators, interested parties understand concerns about accreting investments above this initial cost, but also believe there may be a more reasonable accounting method for these investments versus the proposed cost recovery method.

Residual Tranche Accounting Alternatives (Paragraph 31)

Interested parties noted that the example provided by regulators showed a risky asset accreting high yields for multiple periods even if no cash is received, which is concerning from the point of view of accounting conservatism. While this example may raise alarms to regulators, it may not be representative of residual tranche investments in the industry currently. Many residual tranche investments generate positive cash flows period after period, by design and in practice. Additionally, since the risk of residual tranches is already being addressed through risk-based-capital regulation, we hope that accounting may be formulated to be reasonable on its own, without attempting to address risk through a second channel.

Interested parties initially proposed the effective yield method of accounting, which regulators rejected, noting in some cases it could lead to income generation which was deemed to be aggressive or premature. Regulators then proposed cost recovery method of accounting, which interested parties believe is too punitive in cases where healthy cash generating assets would be written down to zero before recognizing any income.

We hope that a third alternative can be reached which incorporates these two principles:

- Assets cannot be accreted above original (or subsequent) consideration paid; and
- Assets may use a systematic approach to record investment income to the extent cash is received.

In industry discussions it became clear that variety and complexity exists which impacts this topic including:

- Underlying collateral assets span from loans to mortgages to real estate to equity to lease backed assets, each case which may suggest a different expected earnings and cash flow pattern.
- Certain servicers clearly delineate the amount of principal vs. interest cash flows generated by the collateral that are allocated to each tranche of investment. Interested parties are currently reaching out to investment advisors to understand whether some servicers do not provide this same level of granularity.
- Certain investments accounted for currently under the equity method, may prospectively be classified as residuals. Currently under the equity method, distributions are allocated between return of capital and return on capital.

Interested parties have been discussing several alternatives, two of which are described below: servicer reports and capital statements and an effective yield method with a cap. Both alternatives will also use a lower of adjusted cost or fair value concept and appropriate treatment for other than temporary impairments (OTTI). Interested parties would like the opportunity to discuss these alternatives with the Working Group to determine whether one or both of these approaches may be considered a reasonable alternative to the cost recovery method.

<u>Servicer Reports or Capital and Distribution Statements</u>

Servicer reports generally attribute every cash distribution into cash receipts from the interest payment on the collateral versus principal paydowns on the collateral. These cash distributions are allocated to each tranche of investment (including the residual) based upon a priority of payments schedule formalized in the operative documents for the respective securitization. Similarly, capital and distribution statements schedule out the return on capital and the return of capital. Insurers applying the equity method are accustomed to the appropriate timing to record a distribution as a dividend on the income statement under the equity method of accounting.

One alternative is to guide companies to refer to servicer reports or capital and distribution statements to recognize income equal to the portion of the residual interest's cash disbursements generated from interest receipts on the collateral pool. This method is simple, reliable and supportable.

<u>Effective Yield Method with a Cap</u>

Another alternative which could be applied is an effective yield method with a cap on income, such that income could only be recognized to the extent that there is a receipt of cash. As part of this alternative, the carry value of this asset may not be accreted above the cost of consideration paid. A detailed example of how this method would compare to effective yield method and cost recovery method has been drafted, noting that this third alternative would generally – if not always – result in a period-over-period carry value which is lower than the effective yield method and higher than the cost recovery method, meaning it represents a middle road, as expected. For this proposal, initial draft language has been presented for discussion as well.

We would like to offer the following principles for discussion, with the intent of replacing paragraph 31 in its entirety. Should this concept be acceptable to regulators, interested parties could also suggest actual SSAP language to accomplish what is described below.

Each period the book adjusted carrying value and interest income would be determined in the following manner:

1. At the beginning of the period, calculate the book yield as the discount rate that equates the then current best estimate of cash flows projections to the cost basis of the asset.
2. The maximum amount of interest income will be the product of the book yield and beginning of period book adjusted carrying value.
3. If cash distributed to the asset is less than the maximum amount of interest income:
    - Interest income equals total amount of cash distributions.
    - Book adjusted carrying value of the asset is not decreased.

4. If cash distributed to the asset is greater than the maximum amount of interest income:
   - Interest income equals the maximum amount calculated above.
   - Book adjusted carrying value is decreased by the amount of cash distributions in excess of the maximum amount of interest income.

Both a servicer report/capital and distribution statement method and an effective yield method with a cap would ensure that the carrying value is not accreted above cost and would allow for income recognition which is supported by cash receipts.

Comment on OTTI (Paragraphs 30 and 32)

It appears that the most recent draft of residual tranche guidance was adjusted to depart from standard lower of cost or market (LOCOM) accounting to automatically record any decrease of fair value below adjusted cost to be an other-than-temporary impairment, rather than capturing temporary reductions as unrealized losses. Interested parties generally would expect that LOCOM and OTTI processes would remain consistent for this asset class as it would be applied to other asset classes. We believe the following language, currently in SSAP 43R paragraph 26.c., should be moved to this standard:

> "For residual tranches or interests captured in scope of this statement, 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 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."

Additionally, the language from SSAP No. 48 paragraphs 18 and 19 addresses the impairment process of an equity method investment and SSAP No. 43R, paragraphs 34 and 36, addresses the impairment process of a residual interest in a beneficial interest.

As noted, many alternatives are being discussed by interested parties. We have shared examples of our latest thinking above in order to continue a productive discussion with regulators on this important topic. We look forward to continuing to engage with regulators and stand ready to answer any questions you may have on this topic.

Ref #2022-12: Review of INT 03-02*: Modification to an Existing Intercompany Pooling Arrangement*

The Working Group re-exposed the intent to nullify INT 03-02 and directed NAIC staff to work with industry regarding some of their comments and examples to be submitted by industry.

In response to the Working Group's request for examples of a modification to an existing intercompany pooling arrangement, interested parties identified the two most common modifications to intercompany pooling arrangements:

- the combination of two intercompany pooling arrangements following the acquisition by an insurance group of another insurance company (or group of companies), and
- the removal of an insurance subsidiary from an intercompany pooling arrangement in preparation for the sale of the subsidiary (discontinued line of business)

These two types of modifications may involve the movement of a significant amount of assets and liabilities to re-balance the capital and surplus of the insurance subsidiaries involved to manage the impact to a targeted RBC for the members of the intercompany pooling arrangement. A less common modification is the re-capitalization of the members of the pooling arrangement to adjust for changes in investment strategy over time. Because this latter type of transaction usually involves the movement of cash, not assets and liabilities, we are not including an example as the effects are fairly straight forward.

For purposes of the Example 1 below, please see the attached Organization Chart – Pre-Acquisition.

Example 1 is the combination of <u>two intercompany pools following the acquisition of a group of companies:</u>

- Insurance Group (Holdco) A acquires Insurance Group (Holdco) B.
- Insurance Group A and Insurance Group B have the following intercompany pools:

<u>Intercompany Pool A:</u>	<u>Pool participation percentage:</u>
Entity A1	70%
Entity A2	26%
Entity A3	4%

<u>Intercompany Pool B:</u>	<u>Pool participation percentage:</u>
Entity B1	60%
Entity B2	22%
Entity B3	18%

Upon completion of the acquisition, the acquired companies are owned by a common holding company for this example (please see attached Organizational Chart Post Acquisition – Example 1).

- Intercompany Pool A modifies its pooling arrangement, brings Intercompany Pool B into Intercompany Pool A and resets the pool participation percentages retroactive to January 1 of the current year as follows:

<u>Intercompany Pool A:</u>	<u>Pool participation percentage:</u>
Entity A1	40%
Entity A2	20%
Entity A3	3%

Entity B1	22%
Entity B2	8%
Entity B3	7%

- In this example, each entity's pool participation percentage have been reset in order to balance future capital needs, with consideration of risk-based capital and other financial measures (e.g., IRIS ratios).

- As a result of the pooling modification, the three former Intercompany Pool B entities must transfer net assets to each of the Intercompany Pool A entities. For purposes of this example, entity B1 transfers bonds totaling $9,000,000 to entity A1 in order to support the $9,000,000 of reserves[1] transferred to entity A1.

Scenario 1:

- If bonds with a market value of $9,000,000 and an amortized cost of $8,000,000 are transferred from entity B1 to entity A1 at market value, entity B1 may or may not have to defer its gain resulting from the transfer. This will depend on whether entity A1 and entity B1 have a common insurance entity parent. For example, if entity B1 is under entity A1's ownership chain or vice-versa as shown in the attached Organizational Chart Post Acquisition – Example 1, the gain will be deferred; otherwise, the gain will be realized. In the example provided, B1 would realize the gain on the transfers of assets to A1 as the two entities are not owned by the same insurer. However, if A3 transferred assets to A1, the gain in this instance would be deferred.

- More importantly, because insurers generally hold most bond investments to maturity, the cash flows from the contractual payments over the term of the bonds will be aligned with the bonds' amortized cost, not the market value at a point in time. Because entity B1 transferred bonds with an amortized cost of $1,000,000 less than that needed to support the reserves transferred (at book value) to entity A1, entity A1 will have received a deficient amount of assets (future cashflows) as part of the modification of the intercompany pooling arrangement. This will result because entity A1 will realize cash flows closer to the $8,000,000 amortized cost of the bonds rather than the market value at the time of the pooling modification of $9,000,000.

- In addition, if entity B1 has recorded a gain in surplus as a result of the transfer of the bonds as part of the intercompany pooling modification transaction, entity B1 must treat the intercompany pooling as retroactive reinsurance pursuant to paragraph 36d of SSAP No. 62R as provided in the example.

[1] The reserves transferred would typically include loss and loss adjustment expenses and other underwriting expense reserves, net of any premiums receivable subject to the pooling arrangement.

Scenario 2:

- If bonds with a market value of $9,000,000 and an amortized cost of $10,000,000 are transferred from entity B1 to entity A1 at market value, entity A1 will have received excess assets of $1,000,000 above the reserves transferred (at book value) to entity A1, as entity A1 will realize cash flows from the $10,000,000 amortized cost of the bonds rather than the market value at the time of the pooling modification of $9,000,000. Therefore, if entity B1 is required to transfer the assets at fair value, it has essentially sent a dividend of $1,000,000 to entity A1.

Example 2 is the removal of an insurance subsidiary from an intercompany pooling arrangement in preparation for the sale of the subsidiary (discontinued line of business). For this example, please see attached Organizational Chart – Example 2:

- Entity A6 is removed from the Intercompany Pool comprised of 6 insurance subsidiaries under Holdco A (as the insurance group is discontinuing A6's lines of business and selling the entity A6).

- The intercompany pooling arrangement is modified and the pooling percentages are reset such that entity A1 absorbs A6's pooling participation (retroactive to January 1 of the current year).

- Prior to the modification, the intercompany pooling percentages are:

Intercompany Pool participant:	Pool participation percentage:
Entity A1	37%
Entity A2	14%
Entity A3	2%
Entity A4	28%
Entity A5	10%
Entity A6	9%

- After the modification, the intercompany pooling percentages are:

Intercompany Pool participant:	Pool participation percentage:
Entity A1	46%
Entity A2	14%
Entity A3	2%
Entity A4	28%
Entity A5	10%

- As a result of the pooling modification, entity A6 must transfer net assets to entity A1. For purposes of this example, entity A6 transfers bonds totaling $27,000,000 to entity A1 in order to support the reserves[2] transferred to entity A1 for the business retained by the intercompany pool.

Scenario 1:

- If bonds with a market value of $27,000,000 and an amortized cost of $26,000,000 are transferred from entity A6 to entity A1 at market value, the implications of such a transfer are the same as in Example 1. Entity A6 may or may not have to defer its gain resulting from the transfer. This will depend on whether or not entity A1 and entity A6 have a common insurance entity parent (the attached Example 2 assumes that the entities do not have a common insurance entity parent). For example, if entity was a subsidiary of entity A1, the gain will be deferred; otherwise, the gain will be realized. In the example provided, A6 would realize the gain on the transfers of assets to A1 as the two entities are not owned by the same insurer. However, if A3 transferred assets to A1, the gain in this instance would be deferred.

- Because entity A6 transferred bonds with an amortized cost of $1,000,000 less than that needed to support the reserves transferred (at book value) to entity A1, entity A1 will have received a deficient amount of assets (future cash flows) as part of the modification of the intercompany pooling arrangement. This will result because entity A1 will realize cash flows closer to the $26,000,000 amortized cost of the bonds rather than the market value of $27,000,000 at the time of the pooling modification.

- In addition, if entity A6 has recorded a gain in surplus as a result of the transfer of the bonds as part of the intercompany pooling modification transaction, entity A6 must treat the intercompany pooling as retroactive reinsurance pursuant to SSAP No. 62R.

Scenario 2:

- If bonds with a market value of $27,000,000 and an amortized cost of $28,000,000 are transferred from entity A6 to entity A1 at market value, entity A1 will have received excess assets of $1,000,000 above the reserves transferred (at book value) to entity A1, as entity A1 will realize cash flows from the $28,000,000 amortized cost of the bonds rather than the market value of $27,000,000 at the time of the pooling modification. Therefore, if entity A6 is required to transfer the assets at fair value, it has essentially sent a dividend of $1,000,000 to entity A1.

Ref #2022-14: New Market Tax Credits

The Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R. Additionally, the Working Group directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

[2] The reserves transferred would typically include loss and loss adjustment expenses and other underwriting expense reserves, net of any premiums receivable subject to the pooling arrangement.

Revisions to SSAP No. 93 – *Low-Income Housing Tax Credit Property Investments* and SSAP No. 94R – *Transferable and non-transferable State Tax Credits* and updates were made in response to comments received from interested parties.

Interested parties appreciate the opportunity to comment on the substantive revisions exposed by the Working Group for SSAP No. 93 – *Low Income Housing Tax Credit Property Investments* and SSAP No. 94 - *Transferable and Non-Transferable State Tax Credits* under item Ref #2022-14 *New Markets Tax Credits* (the Exposure). As stated in our prior comment letter on this topic, interested parties agree with having uniformity in accounting and reporting for equity and debt investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. However, we have concerns regarding the proposed adoption and scope provisions of the Exposure along with concerns that certain aspects of the Exposure could be misinterpreted which are outlined in the comments below:

SSAP No. 93 Admissibility Requirements for Ownership Interests in Tax Credit Investments
Paragraph 18 requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. Interested parties agree with the requirements of this paragraph to the extent that a tax credit investment meets **both** of the following criteria:

1) a reporting entity is not permitted to sell its ownership interest in a tax credit investment project to a 3rd party, and
2) the tax credits generated by the investment are not transferrable post allocation by the tax credit investment project.

If both of these criteria are met, a reporting entity's ownership interest in a tax credit investment can only be converted into allocated tax credits for use by the reporting entity and therefore, evaluation for admittance based on a reporting entity's ability to utilize the tax credits is appropriate.

Interested parties do not believe that the admissibility criteria within paragraph 18 should apply to ownership interests in tax credit investments that are unrestricted for sale (regardless of the type of tax credits that it generates and allocates) **or** for ownership interests in tax credit investments that are restricted but generate transferrable tax credits. Ownership interests in these types of tax credit investments represent investments that can be directly liquidated to satisfy policyholder obligations either through sale of the reporting entity's ownership interest in the investment (i.e., the future rights to receive tax credits that have not yet been generated and allocated by the tax credit investment) *or* sale of the transferrable tax credit post allocation. Therefore, we believe that these types of tax credit investments represent admitted assets and are fundamentally different from nonsaleable ownership interests in tax credit investments that only allocate non-transferrable tax credits.

Interested parties acknowledge that paragraphs 18(a) and 18(b) appear to provide an exception to the admissibility requirements in paragraph 18 for these types of investments:

> *18(a). Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions may admit up to the lesser of the proportional amortized cost, or fair value of the tax credits. If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.*
>
> *18(b). Tax credit investments which allocate tax credits eligible for direct payment may admit up to the lesser of the proportional amortized cost, or the estimated proceeds.*

With respect to paragraph 18(a), interested parties disagree with the concept that if the fair value of a tax credit investment is not determinable, a reporting entity must apply the admissibility criteria within paragraph 18 because this conflicts with the impairment requirements in paragraph 25 of SSAP No. 93R, which provides guidance to ensure that a reporting entity's ownership interest in a tax credit investment would never exceed its fair value. We believe paragraph 25 of SSAP No. 93R appropriately addresses admissibility for these scenarios and therefore the language in paragraph 18(a) should be removed from the Exposure. Further, paragraph 25 requires a reporting entity to test its investment in tax credit projects for impairment annually and permits a reporting entity to estimate fair value as the present value of the future tax credits and other tax benefits that are expected to be generated by the tax credit investment discounted at a risk-free rate of return. Interested parties believe that this method provides a reasonable approximation of the fair value of a reporting entity's ownership interest in a tax credit investment, as it is based on assumptions that would be used by market participants when determining the purchase price of a similar investment (i.e., fair value is directly tied to the tax credits/benefits expected to be generated by the investment). As these types of tax credit investments are unrestricted for sale, we believe these ownership interests should be considered admitted assets and that admissibility is appropriately captured by the impairment testing requirements of paragraph 25. In addition, interest parties believe paragraph 25 also addresses admissibility for ownership interests in tax credit investments that may be restricted for sale if they allocate transferrable tax credits. This is because of the direct link between a tax credit investment's fair value and the value of the tax credits it allocates. Accordingly, in these circumstances because the tax credit allocated by the investment can ultimately be sold to a 3rd party, the impairment testing requirements of paragraph 25 also appropriately address admissibility considerations related to the tax credit investment.

With respect to paragraph 18(b), interested parties believe the meaning of "estimated proceeds" has the same meaning as fair value and represents the price that would be received by the reporting entity for its ownership interest in a tax credit investment in an orderly transaction between market participants and that wording should therefore be stricken from paragraph 18. We believe that ownership interests in tax credit investments that allocate tax credits eligible for direct payment (i.e., non-transferrable tax credits) are no different from those that allocate transferrable assets because a reporting entity can sell its ownership interest in the tax credit investment (i.e., the rights to receive tax credits that have not yet been generated and allocated by the tax credit investment). Similarly, we believe that admissibility of these tax credit investments is appropriately addressed by the impairment requirements of paragraph 25 because the fair value of a reporting entity's ownership interest in these tax credit investments is directly tied to the future tax credits and other tax benefits that are expected to be generated by the tax credit investment project.

Given these considerations, interest parties suggest the following revisions to paragraph 18; note that the proposed revisions below do not contemplate changes that may arise from the other comments discussed in this letter:

Reporting entities are required to annually assess the future utilization of the investment's current portion of unallocated tax credits against the estimated tax liabilities for both the tax year in which the tax credits can be initially utilized as well as any applicable carryback periods for a reporting entity's ownership interest in tax credit investments that meet both of the following criteria:

a. *the ownership interest in the tax credit investment is legally restricted for sale, and*
b. *the tax credits allocated to the reporting entity by the tax credit investment are not transferrable post allocation.*

~~*Based on this assessment,*~~ *For tax credit investments that meet both of these criteria,* ……………………………..

.... ~~*As an exception to the admittance assessment detailed above, if the tax credit investment allocates tax credits with the following features the reporting entity may perform a secondary assessment to determine if additional amounts of the tax credit investment may be admitted*~~*:*

~~a. *Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions may admit up to the lesser of the proportional amortized cost, or fair value of the tax credits. If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.*~~
~~b. *Tax credit investments which allocate tax credits eligible for direct payment may admit up to the lesser of the proportional amortized cost, or the estimated proceeds.*~~

SSAP No. 93 Paragraph 18 Clarifications
Interested parties also suggest clarification of key terms in paragraph 18. Based on previous dialog with the Working Group, we propose the following definitions:

1) "unallocated tax credits" - the portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.
2) "current portion" - the credits allocated within one year of the reporting period.

In addition, to avoid misinterpretation we propose that instead of assessing if the unallocated tax credits will be used over the life of the investment, that the assessment should occur over the life of the tax credit. This language aligns with the next sentence, which references if the unallocated tax credits will exceed what can be utilized under IRS or state tax provisions, the reporting entity must non-admit a portion of the investments. IRS and state tax authorities generally provide that if tax credits allocated or generated in the current year cannot be used to offset the current tax liability, they are carried forward for a specified number of years.

> "...if the reporting entity does not expect to substantially utilize the current portion of unallocated investment tax credits, the reporting entity shall perform an expanded assessment to determine the extent that it will be able to utilize all of the investment's unallocated tax credits over the life of the tax credit ~~the life of the invest ment~~. If assessment projections identify that the investment's unallocated tax credits will exceed what can be utilized under IRS or state tax provisions (current and carryforward periods ~~other applicable tax periods~~), the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized within carryforward periods. Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized within the carryforward periods then the entire investment shall be nonadmitted."

Paragraph 18 disallows reporting entities from assuming that future operations will increase as support for the utilization of tax credits. However, interested parties assume that tax planning strategies are required when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. Explicitly providing this requirement prevents misinterpretation and avoids unintended fluctuations in surplus in the year credits are allocated and assessed under the guidelines in SSAP No. 101.

Retrospective Versus Prospective Adoption

Interested parties believe that applying the requirements under the revised standards upon transition should be done on a prospective basis so that no adjustments to surplus are recorded at the date of adoption. Under the prospective method, companies will analyze which of their investments meet the criteria under each standard. For SSAP No. 93 investments, the carrying book value at the date of adoption will become the starting balance, which will be used to determine future amortization under the proportional amortization method based on future tax credits and other tax benefits to be earned. Under SSAP No. 94, the requirement to record the credits at their face value should be applied to future purchases only. Otherwise, we would have to adjust the book value of those credits upon adoption due to the change in accounting for SSAP No. 94 purchased tax credits that requires recording these credits at face value rather than actual cost.

Adoption Date

Due to the level of work required to review investments for which tax credits are received to determine if they meet the criteria under SSAP No. 93, we believe that having an effective date of 1/1/25 would be more reasonable. In addition, we understand that changes to Schedule BA along with review by the NAIC's Capital Adequacy Working Group will need to take place to report the new investments in the appropriate section of the schedule. Since this will require additional time as well, 1/1/25 seems reasonable. Although the FASB ASU has an adoption date of 1/1/2024 for many insurers, many other insurers do not apply US GAAP and/or meet the requirements to adopt the ASU after 1/1/2024. Additionally, the accounting requirements for the new FASB ASU are different than those under the Exposure and thus, additional time to adopt the Exposure is warranted.

For SSAP No. 94 tax credits, since the adoption of this standard requires minimal changes to the annual statement as these are reported as other-than-invested assets and not as investments, an effective date of 1/1/25 with early adoption allowed will be beneficial for industry. Early adoption will allow insurers that purchase federal tax credits to apply the proposed accounting under SSAP No. 94. Otherwise, there may be questions of admissibility for new instruments purchased, since today's SSAP No. 94 only addresses state tax credits.

SSAP No. 94 Scope
There have been some questions about whether there is enough clarity about the types of tax credits that fall within SSAP No. 93 versus SSAP. No. 94. Interested parties' understanding is that SSAP No. 93 relates to debt and equity investments where the return on the investment is predominantly from tax credits and other tax benefits whereas SSAP No. 94 addresses tax credit "vouchers" that are purchased outright from any party, which are not considered investments (but instead represent receivables). To that end, we want to suggest the following edits to the SSAP No. 94 scope:

> "This statement establishes statutory accounting principles for state and federal tax credits that are purchased1 by the reporting entity without being a~~n~~ bond or equity investor in the entity from which the tax credit were purchased."

Ref #2023-14: ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve***

The Working Group moved this agenda item to the active listing, categorized as a new SAP concept and exposed this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the annual statement instructions when incorporating SAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions. The agenda item identifies discussion topics to be included in this project.

Interested parties support the comments made by the ACLI in its comment letter.

Schedule Ref #2023-16: Schedule BA Reporting Categories

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. This item contains revisions to further define, for consistency purposes, investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

Interested parties recommend several edits to further clarify and define the investments that should be categorized as non-registered private funds, joint ventures, partnerships or limited liability companies or residual interests, based on the characteristics of the underlying assets.

Please see the related attachment with marked edits.

We do not recommend any changes to the language describing Non-Registered Private Funds, but we would like to comment on what is included in that section in response to the Working Group's request: in addition to private funds which have been filed with the SVO and private funds which have not been filed with the SVO, there are certain fixed income instruments not included on schedule D or schedule B, consistent with the Annual Statement Instructions for that schedule.

Ref #2023-17: Short-term Investments

The Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. To correspond with the bond project, this agenda item proposes an effective date of Jan. 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly. This item contains revisions to further restrict the investments that are permitted to be included in cash or shorter-term investment reporting.

Interested parties have no comments on this item.

Ref #2023-18: ***Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets***

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to adopt, with modification, *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting in SSAP Nos. 5R, 92, 102, and 103R as illustrated in the proposal. The proposed revisions adopt with modification certain aspects of *ASU 2016-19: Technical Corrections and Improvements*. The revisions also include amending SSAP No. 92 – *Postretirement Benefits Other Than Pensions* guidance on insurance contracts to use the same terminology as that used in SSAP No. 102 – *Pensions*.

Interested parties have no comments on this item.

Ref #2023-19: ASU 2018-09, Codification Improvements

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2018-09 Codification Improvements* as not applicable for statutory accounting.

Interested parties agree with the recommendation in this agenda item.

Ref #2023-20: ASU 2020-10, Codification Improvements

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable for statutory accounting.

Interested parties agree with the recommendation in this agenda item.

Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that was no longer applicable as the ten-year effective period for that transition has ended.

Interested parties agree with the recommendation in this agenda item.

Ref #2023-22: Actuarial Guideline 51 and Appendix A-010 Interaction

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 54R to clarify that gross premium valuation (under Appendix A-010) and cash flow testing (under AG 51) are both required, if indicated. In addition, the Working Group directed staff to provide formal notice of the exposure to the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group.

Interested parties have no comments on this item.

* * * *

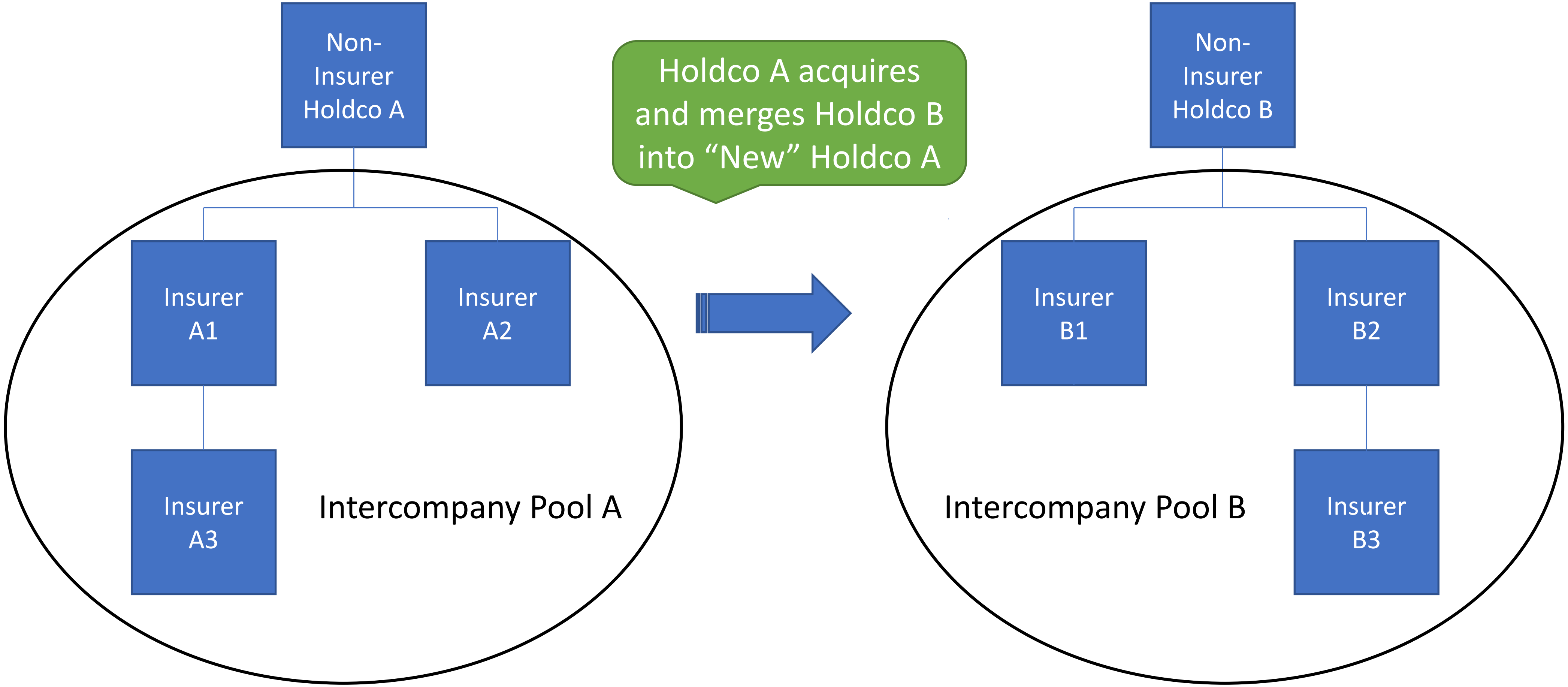
Please feel free to contact either one of us with any questions you may have.

Sincerely,

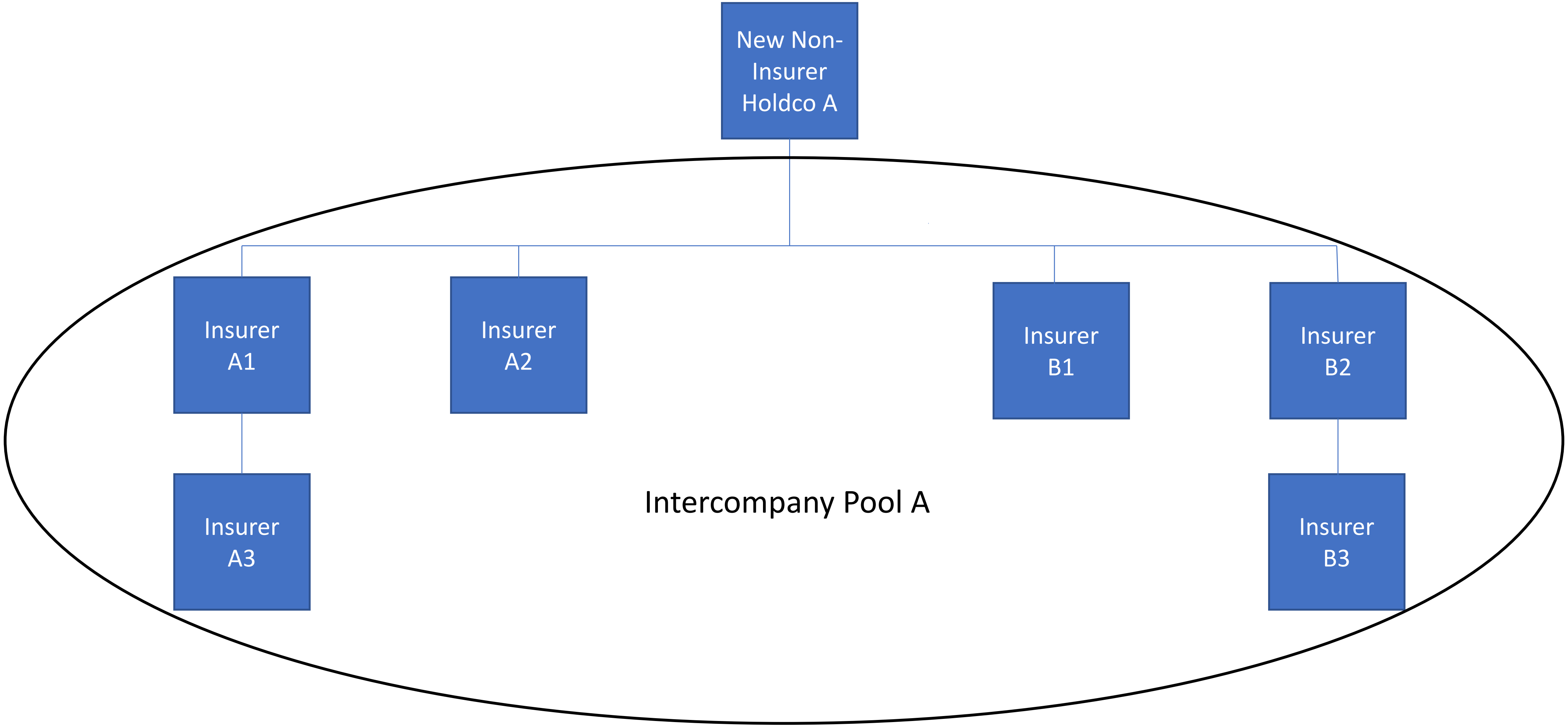
D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

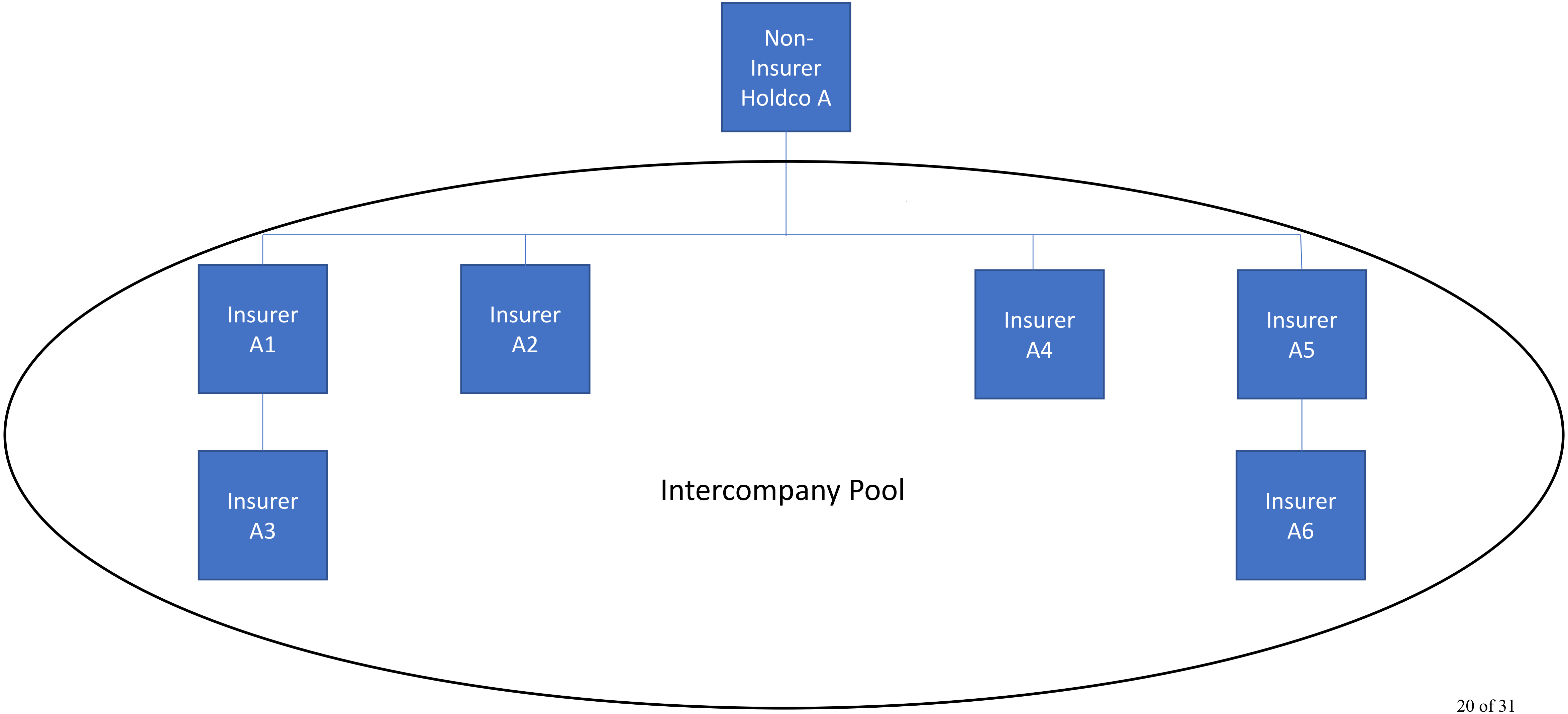
Organizational Chart Pre-Acquisition – Example 1



Organizational Chart Post Acquisition – Example 1



Organizational Chart – Example 2



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

Issue: Schedule BA Reporting Categories

Check (applicable entity):

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

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

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

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

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

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

Existing Authoritative Literature:

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

Reporting Categories on Schedule BA:

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated 0799999
Affiliated 0899999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated 0999999
Affiliated 1099999

Mortgage Loans

Unaffiliated 1199999

Affiliated 1299999

Other Fixed Income Instruments

Unaffiliated 1399999
Affiliated 1499999

Joint Venture, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics of:

Fixed Income Instruments

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated 1599999
Affiliated 1699999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated 1799999
Affiliated 1899999

Common Stocks

Unaffiliated 1999999
Affiliated 2099999

Real Estate

Unaffiliated 2199999
Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999
Affiliated 2499999

Other

Unaffiliated 2599999
Affiliated 2699999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments

Unaffiliated 4699999
Affiliated 4799999

Common Stock

Unaffiliated 4899999
Affiliated 4999999

Preferred Stock

Unaffiliated 5099999
Affiliated 5199999

Real Estate

Unaffiliated 5299999
Affiliated 5399999

Mortgage Loans

Unaffiliated 5499999
Affiliated 5599999

Other

Unaffiliated 5699999
Affiliated 5799999

Schedule BA Classification Instructions / Guidance:

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "Fixed Income Instruments," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities* Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

Fixed Income Instruments

Include: Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans.

Common Stocks

Include: Investments with underlying collateral which are securities that represent a subordinate equity ownership.

Preferred Stocks

Include: Investments with underlying collateral which is a security that represents ownership of a corporation and gives the holder a claim prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation.

Real Estate

Include: Investments with underlying collateral which is defined as directly-owned real estate properties and single real estate property investments that are directly and wholly-owned through a limited liability company.

Mortgage Loans

Include: Investments with underlying collateral which is secured by a mortgage on real estate.

Other

Include: Items that do not qualify for inclusion in the above subcategories.

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):

- Bond Project: Under the principle-based bond definition project, revisions are proposed to combine the non-registered provide funds within the reporting category for joint ventures, partnerships and limited liability companies as those items would also be in scope of SSAP No. 48. With that change the category of "fixed income instruments" would be retained.

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

Convergence with International Financial Reporting Standards (IFRS): NA

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

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

As detailed in the current A/S instructions, descriptions are included for non-registered private funds, joint ventures, partnerships, and limited liability companies, whereas references to the SSAP the underlying assets would be captured in are included for residual interests.

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

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

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

Mike Monahan
Senior Director, Accounting Policy
202-624-2324 t
mikemonahan@acli.com

September 29, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Dear Mr. Bruggeman:

Re: Exposure Ref #2023-14 – SSAP No. 7 Asset Valuation Reserve and Interest Maintenance Reserve

The American Council of Life Insurers (ACLI) appreciates the continued thoughtful and timely attention the Statutory Accounting Principles Working Group is dedicating to this important topic.

ACLI is very appreciative and supportive of the IMR Technical Working Group. ACLI stands ready to continue working with the NAIC to ensure the most appropriate long-term treatment of the IMR can be applied and a company's surplus and financial strength are properly reflected, all while not disincentivizing the prudent management practices that are in the best interest of all.

We are supportive of efforts to capture guidance for the IMR and AVR in SSAP No. 7. We further appreciate NAIC staff's efforts to create an initial list of topics to be addressed, noting that the interconnectedness and complexity of the IMR and AVR will result in robust, detailed discussions at the Technical Working Group.

If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy

ACLI
Financial Security for Life

Mike Monahan
Senior Director, Accounting Policy
202-624-2324 t
mikemonahan@acli.com

October 18, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Dear Mr. Bruggeman:

Re: Exposure Ref #2023-15 – IMR / AVR Specific Allocation

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the above referenced exposure. The ACLI believes the exposure can essentially be separated into three components, all of which NAIC staff believes will result in a more correct allocation of gain/losses to IMR. Specifically, 1) where a mortgage loan has been sold at a loss while subject to a valuation allowance, 2) where an acute credit event occurred with the security sold at a loss prior to the event being reflected in CRP ratings or on the SVO feed, and 3) the current notch rule potentially allows inappropriate credit losses going to IMR. ACLI is supportive of ensuring the appropriate treatment of interest and credit related gains and losses and committed to working with NAIC to address regulator concerns.

Mortgage Loans Sold at a Loss While Subject to A Valuation Allowance

ACLI is supportive of the proposed IMR changes related to mortgage loans.

An Acute Credit Event Occurred But Is Not Yet Reflected in CRP Ratings/SVO Feed

ACLI appreciates the NAIC's concern that the current notching criteria for an IMR eligible gain/loss does not pick up situations where there is an acute credit event (e.g., wild fires and lawsuits related to PG&E or Silicon Valley Bank) and where an insurance company may want to exit security holdings at a loss, but where the acute credit even is not yet reflected in a CRP downgrade and/or the SVO feed.

Most insurance companies subject to IMR utilize the SVO feed for both risk-based capital purposes and IMR, and have an automated process to utilize the SVO feed where applicable (i.e., not all securities are included in the SVO feed at time or purchase and/or sale and therefore insurance companies have procedures to take the second lowest available CRP rating, or internal rating if CRP ratings do not exist at the time, that subsequently get automated).

While ACLI is supportive of what the NAIC is trying to achieve, the ACLI has struggled to think of a way to operationalize it. The concept of a "reasonable period of time" presents the following challenges:

- The concept itself is ambiguous, and even in a principles-based rule is difficult to operationalize,
- What is a reasonable period of time for a sale in January could be the remaining 11 months of the year, albeit with inter-quarter adjustments, but in December could need to be much shorter,
- Each sale in December, which could be a substantial number, would require insurance companies to keep their books open and potentially rerun and revise all internal and external reporting through their annual statement filing date.
- CRP ratings and/or the SVO feed could be delayed beyond even that period, requiring inter-year changes.
- Certain companies utilize CRP ratings directly, instead of the SVO feed, to more appropriately capture the second lowest CRP rating where the SVO feed does not appropriately capture.

Rather than support the "reasonable period of time" concept, ACLI proposes an alternative which it believes better captures the NAIC's goals.

Include realized capital gains(losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office designation at the end of the holding period is ~~NOT~~ different from its NAIC designation at the beginning of the holding period by one or less ~~more than one~~ NAIC designations. However, if the security sold also includes the following, it should not be included:

- Between the purchase and sale date there was an acute credit event (a known event that significantly impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of sale, where the resulting gain/loss from the sale was predominantly credit related.

The ACLI looks forward to working with the NAIC to more appropriately tailor this concept if needed, to achieve the NAIC objectives, and so it can be adopted so as to be effective as early as January 1, 2024, which may be the earliest it can be operationalized.

The Current Notch Rule Allows Inappropriate Credit Losses Going to IMR

Embedded within the proposed changes in this exposure is the concept of changing the term NAIC Designation to NAIC Designation Category, as can be understood by the chart below. Essentially, this drastically changes the granularity by utilizing the 20 NAIC Designation Categories versus the 6 NAIC Designations.

NAIC Designation	NAIC Designation Category
1	1A
	1B
	1C
	1D
	1E
	1F
	1G
2	2A
	2B
	2C
3	3A
	3B
	3C
4	4A
	4B
	4C
5	5A
	5B
	5C
6	6

The ACLI suspects this change was intended to more precisely allocate gains/losses to IMR and AVR. The ACLI notes several challenges with this approach.

Most importantly, such an approach may result in unintended consequences that could be concerning to regulators. This can best be illustrated with the following.

	1A	1B	1C	1D	1E	1F	1G	2A	2B	2C	3A	3B	3C	4A	4B	4C	5A	5B	5C
1A	0	-1	8	10	20	32	47	71	85	127	205	221	250	316	372	465	644	777	1367
1B		0	9	10	20	32	48	72	86	128	206	221	251	317	373	465	644	778	1367
1C			0	2	12	24	39	63	77	119	197	212	242	308	364	457	636	769	1359
1D				0	10	22	37	61	76	117	195	211	240	306	362	455	634	767	1357
1E					0	12	27	51	66	107	185	201	230	296	352	445	624	757	1347
1F						0	15	39	54	95	173	189	218	284	340	433	612	745	1335
1G							0	24	38	80	158	173	203	269	325	417	596	730	1320
2A								0	14	56	134	150	179	245	301	394	573	706	1296
2B									0	42	120	135	165	231	287	379	558	692	1281
2C										0	78	94	123	189	245	338	517	650	1240
3A											0	15	45	111	167	259	438	572	1162
3B												0	29	96	151	244	423	556	1146
3C													0	66	122	215	394	527	1117
4A														0	56	148	327	461	1051
4B															0	93	272	405	995
4C																0	179	312	902
5A																	0	133	723
5B																		0	590
5C																			0

Source: Average spreads by index rating of the Bloomberg US Corporate Investment Grade Index and U.S. High Yield - 1% Issuer Cap Index over 5 years (10/1/2018 through 9/19/2023); Aladdin

If a security was sold, going from a 1A (vertical axis) to a 1C (horizontal axis), the credit related component of its yield would increase approximately 8 basis points. In a sale where the risk-free rate also went up 3% or 300 basis points, the interest related component of the gain/loss would be approximately 37.5x (300/8) the credit related component. The proposal still results in imprecision for IMR eligibility, and may be especially troubling in a declining interest rate environment as gains would not go to IMR (the scenario that was most troubling to regulators when IMR was developed)

In summary, in a falling interest rate environment, gains may overstate a company's surplus or could be distributed (showing the same financial strength when the company now has a lower yielding portfolio). In a rising interest rate environment, losses would show decreased financial strength, when in fact a company would have a higher yielding portfolio. It is important to understand that the portion of any gain/loss attributable to interest and/or credit is essentially linked to three variables 1) credit spreads as articulated in the above table, which fluctuate over time 2) the change in risk-free rate, which also fluctuates over time and 3) where the security exists in the credit spectrum (e.g., represented by either the CRP rating, NAIC Designation, or NAIC Designation Category, where the spread change is not linear as one proceeds from higher ratings to lower ratings).

ACLI believes it is very important to carefully consider:

- Should the existing one-notch NAIC Designation rule be retained?
- Should it be several NAIC sub-categories?
- Should it be different for Investment Grade and Below Investment Grade Securities?

- Should gain losses be bifurcated between interest and credit related components?
- If so, is there a simple way to calculate the bifurcated gains and losses to ensure consistency between companies and so that it can be automated?

Lastly, even if the exposed approach was deemed appropriate, there are additional significant operational issues:

- The SVO feeds are the primary source of data for calculating such IMR related gains/losses but the 20 NAIC categories are not included prior to the implementation of the new factors for risk-based capital.
- It would be impractical for insurance companies to retroactively apply this given their automated processes.
- Most companies do not have all CRP feeds to determine the second lowest CRP ratings.

ACLI strongly encourages any action beyond its alternative acute credit event proposal be addressed as part of the long-term project.

If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy

MMonahan