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Statutory Accounting Principles (E) Working Group

Denver, Colorado

November 17, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Denver, CO, Nov. 17, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown and Tom Hudson (DE); Cindy Andersen (IL); Bill Werner (LA); Judy Weaver and Steve Mayhew (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm (WI).

1. Adopted its Oct. 4, Sept. 12, and Summer National Meeting Minutes

Bruggeman said the Working Group met Oct. 4 and Sept. 12. On Oct. 4, the Working Group conducted an e-vote to expose an updated bond definition question and answer implementation guide (Q&A) with a comment period ending Oct. 28. The primary revisions to the Q&A were updates to include three additional topics addressing commercial mortgage-backed securities (CMBS) interest-only (IO) strips; commercial mortgage loan (CML) single asset, single borrower (SASB) investments; and hybrids. On Sept. 12, the Working Group conducted an e-vote to adopt revisions to the bond guidance adopted in *Statement of Statutory Account Principles* (SSAP) *No. 26—Bonds* (effective Jan. 1, 2025) and *Issue Paper No. 169—Principles-Based Bond Definition* to revise guidance that restricted issuer credit obligation classification to debt securities issued by U.S. Securities and Exchange Commission (SEC)-registered funds.

Additionally, the Working Group met Nov. 12, Oct. 15, and Oct. 9 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss the Fall National Meeting agendas and Summer National Meeting exposures. No action was taken in those meetings.

Walker made a motion, seconded by Malm, to adopt the Working Group’s Oct. 4 (Attachment One-A), Sept. 12 (Attachment One-B), and Summer National Meeting (*see NAIC Proceedings – Summer 2024, Accounting Practices and Procedures (E) Task Force, Attachment One*) minutes. The motion passed unanimously.

1. Reviewed Comments on Non-Contested Positions

The Working Group reviewed comments on non-contested positions (Attachment One-C).

1. Ref #2024-11

Bruggeman directed the Working Group to agenda item *Ref #2024-11: Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures* (Attachment One-D). William Oden (NAIC) stated that ASU 2023-09 was issued by the Financial Accounting Standards Board (FASB) to enhance the transparency and decision usefulness of income tax disclosures. This agenda item was developed to consider whether the ASU should be incorporated into the statutory accounting framework. Oden stated that interested parties had no comments on this item and that NAIC staff recommend the Working Group adopt revisions to reject ASU 2023-09 in *SSAP No. 101—Income Taxes* and adopt revisions to SSAP No. 101 to remove the disclosure detailed in paragraph 23b as it was determined to be no longer relevant to either U.S. generally accepted accounting principles (U.S. GAAP) or statutory accounting principles (SAPs).

1. Ref #2024-17

Bruggeman directed the Working Group to agenda item *2024-17:* *Clearly Defined Hedging Strategy* (Attachment One-E)*.* Oden stated that, on Aug. 13, the Working Group exposed revisions to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to update the definition of a clearly defined hedging strategy (CDHS) to mirror the revised guidance to *Valuation Manual (VM)-01, Definitions for Terms in Requirements* (VM-01) adopted by the Life Actuarial (A) Task Force in 2022 and effective in 2023. Oden stated that interested parties have no comments and that NAIC staff recommend that the Working Group adopt the exposed revisions.

1. Ref #2024-18

Bruggeman directed the Working Group to agenda item *2024-18:* *Clarifications to NMTC Project* (Attachment One-F)*.* Oden stated that on Aug. 13, the Working Group exposed revisions to clarify the accounting guidance in *SSAP No. 93—Investments in Tax Credit Structures* for recognizing allocated and purchased tax credits in relation to the journal entry example and *SSAP No. 94—State and Federal Tax Credits* to fix an inconsistency between the journal entry examples and the accounting guidance and updates a sentence in *SSAP No. 48—Joint* Ventures*, Partnerships, and Limited Liability Companies* which was inadvertently not updated for the New Markets Tax Credit Program (NMTC Program). Oden noted that interested parties had no comments on this agenda item. Oden stated that NAIC staff recommend that the Working Group adopt the exposed revisions, effective Jan. 1, 2025, to SSAP No. 93, SSAP No. 94, and SSAP No. 48. The effective date of Jan. 1, 2025, is necessary to mirror the effective date of the guidance adopted with 2022-14.

1. Ref #2024-19

Bruggeman directed the Working Group to agenda item *2024-19:* *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* (Attachment One-G)*.* Oden stated that this agenda item was drafted in response to *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*, which removes references to FASB concept statements from the accounting standards codification (ASC) with the intent of simplifying the codification and drawing a clear distinction between authoritative and nonauthoritative literature. Oden noted interested parties had no comments on this agenda item and recommended that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2024-02 as not applicable to statutory accounting.

Kim Hudson made a motion, seconded by Sherman, to adopt the SAP concepts and clarifications in the described non-contested positions. The motion passed unanimously.

1. Reviewed Comments on Exposed Items

The Working Group reviewed comments received on previously exposed items (Attachment One-C).

1. Agenda Item 2019-21

Bruggeman directed the Working Group to agenda item *2019-21: Principles-Based Bond Definition Implementation Questions and Answers*. Julie Gann (NAIC) stated that the Working Group exposed the draft Q&A for a comment period ending Sept. 27 to address issues of implementing the principles-based bond project that has been brought from industry to the bond/American Institute of Certified Public Accountants (AICPA) small group. The Q&A interprets how the SAP guidance should be applied to specific investment structures or investment characteristics.

Gann stated that, on Oct. 4, the Working Group exposed via e-vote an updated Q&A to incorporate three additional topics, including CMBS IO strips, CML SASB investments, and hybrids. Gann stated that three comment letters were received, including two from interested parties and one from Spectrum Asset Management. She stated that, with the Sept. 27 exposure, it was identified that interested parties had not provided comments on any of the prior bond implementation Q&As in the first exposure but had provided comments on the classification of issue papers in the statutory hierarchy. Gann stated that the updated Q&A included minor edits to paragraph 9.2 to eliminate this aspect from the Q&A without changing the intent of the guidance. She also noted that the Interpretation included the correct tracked edits, but the hearing agenda included a summary of the edits. The hearing agenda has a typo that references an edit in paragraph 3.3c which should note paragraph 3.1e.

Gann stated that no revisions were recommended from Spectrum Asset Management’s comments, which said risk-based capital (RBC) impacts could occur for capital notes that are going to be classified in the scope of *SSAP No. 41—Surplus Notes.*

Gann recommended that the Working Group consider adoption of the exposed Q&A in a new *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers* to *SSAP No. 21—Other Admitted Assets* and SSAP No. 26, with the edits suggested by interested parties and edits from the Oct. 4 comments. Gann stated that, in addition, NAIC staff recommend that the Working Group send a referral to the Property and Casualty Risk-Based Capital (E) Working Group and Health Risk-Based Capital (E) Working Group with information on the adopted revisions for the bond definition with identification that the non-bond debt securities will not have the opportunity for RBC based on Securities Valuation Office (SVO)-assigned designations. She stated that this referral will inquire whether the RBC working groups should consider more granular RBC reporting based on SVO-assigned designations in response to the Spectrum Asset Management comment letter.

Gann stated that in response to comments received from interested parties, NAIC staff recommend that the Working Group direct NAIC staff to work with the industry to develop an agenda item on SSAP No. 41to consider slight revisions as requested by the small group and interested parties for the capital notes distinction for hybrids. She noted that capital notes are already in the scope of that statement.

Gann recommended that the Working Group also direct NAIC staff to move forward with a new agenda item to consider capturing issue papers in Level 5 of the statutory hierarchy. She noted that interested parties’ recommendation was for Level 2 or Level 4 of the statutory hierarchy. She stated that NAIC staff is recommending a Level 5 classification to prevent unintended conflicts with other sources of statutory accounting.

Mike Reis (Northwestern Mutual), representing interested parties, noted a reference error in the hearing agenda that referenced a change made in INT 24:01 in paragraph 3.3c but had been made in paragraph 3.1e. Bruggeman agreed and noted that staff had confirmed that the change had been made in the correct paragraph in the interpretation, and this was only a reference error in the hearing agenda.

Bruggeman noted that some of the staff-directed agenda items may be ready for the Dec. 17 meeting. Bruggeman then reiterated that the principles-based bond definition, including this Q&A, would be fully effective starting Jan. 1, 2025, and hopefully, companies are far along with implementation. He noted the principles-based nature of the evaluations that will be occurring. Clark noted that the small group efficiently worked through some very complex questions in a productive manner.

Clark made a motion, seconded by Weaver, to: 1) adopt the exposed Q&A in a new interpretation with the edits suggested by interested parties (Attachment One-H); 2) direct NAIC staff to develop agenda items on SSAP No. 41 edits and on issue papers as Level 5 in the statutory hierarchy; and 3) send referrals to the Property and Casualty Risk-Based Capital (E) Working Group and Health Risk-Based Capital (E) Working Group. The motion passed unanimously.

1. Agenda Item 2023-28

Bruggeman directed the Working Group to agenda item *2023-28: Collateral Loan Reporting*. Gann stated that the Working Group exposed this agenda item with a request for comments on more granular Schedule BA collateral loan reporting lines. She stated that the Working Group also sponsored a blanks proposal to begin detailing the revisions to Schedule BA and the asset valuation reserve (AVR) that would occur with these changes. Gann stated that this action followed prior Working Group discussion and actions to allow, as an interim step, collateral loans with underlying mortgage loans to flow through AVR. She stated that this instructional change was supported by the Working Group on May 15, and corresponding RBC revisions were adopted on June 18. Correspondence to the Blanks (E) Working Group on this interim step was received on Aug. 7. She noted that comments on the interim step are requested.

Gann stated that NAIC staff recommend that the Working Group re-expose this agenda item without revisions and resume discussion once comments have been received on the Blanks (E) Working Group proposal, which was exposed on Nov. 6, 2024, for a 90-day comment period ending Feb. 6, 2025. She stated that the interested parties’ comments predominantly addressed the presentation of changes within Schedule BA and the AVR schedule and not the overall category breakouts or concept for granularity with collateral loan reporting.

Kim Hudson made a motion, seconded by Walker, to re-expose this agenda item without revisions and resume discussion once comments have been received on the Blanks (E) Working Group proposal. The motion passed unanimously.

1. Agenda Item 2024-16

Bruggeman directed the Working Group to agenda item *2024-16: Repack and Derivative Investments*. Gann stated that on Aug. 13, the Working Group exposed revisions to *SSAP No. 86—Derivatives* with a proposal to require bifurcation of debt securities with derivative wrappers or components if the item did not reflect a structured note, as defined in SSAP No. 86. She stated that the exposed guidance then detailed the accounting and reporting for the bifurcated debt and derivative components. Gann stated that the detailed agenda item discussed the origination of credit repack notes, which are debt securities issued by a special purpose vehicle (SPV), that reflect a combined debt security and a derivative. The agenda item also detailed various statutory accounting and reporting aspects if the item was reported as a single debt instrument. Gann stated that a key aspect to note with the origination of the agenda item was how these debt securities would be accounted for under the principles-based bond definition.

Gann stated that the exposed agenda item proposed to revise the long-standing guidance in SSAP No. 86 that embedded derivatives shall not be separated from the host contract and accounted for separately as a derivative instrument and included proposed revisions to separate the debt securities and derivative components/wrappers in all instances, not just credit repacks. She stated that comments received from interested parties did not support the exposed revisions to bifurcate embedded derivatives from the host contracts. The comments indicated that holders of debt security structures should evaluate the securities in accordance with the principles-based bond definition.

Gann stated that NAIC staff recommends this proposal be modified to eliminate the exposed revisions to separate embedded derivatives. She recommended that this agenda item should be limited to sponsoring blanks revisions to clarify the guidance on the bond disposal/acquisition schedules to ensure that the sale of a security to an SPV for which a debt security is acquired back from the SPV with derivative wrappers or other components is shown as a disposal and acquisition. She stated that NAIC staff are not currently recommending revisions to encompass more disclosure or reporting codes to identify debt securities with derivative components that do not reflect structured notes and/or provide interpretative guidance under the bond definition. Gann recommended that the Working Group direct NAIC staff to proceed with drafting an annual statement blanks proposal to clarify reporting instructions for future discussion. Bruggeman noted that the instructions would clarify items that should be reflected as a disposal and an acquisition when the characteristics of the securities are changed.

Clark stated that the original request was from a limited number of parties, and he agreed with the reservations on bifurcation expressed by interested parties. He stated agreement with removing the bifurcation revisions from the agenda item. Gann affirmed that the recommendation was to remove the exposed revisions from the agenda item and develop reporting clarifications for the annual statement.

Clark made a motion, seconded by Weaver, to direct NAIC staff to modify the proposal to eliminate the exposed revisions to separate embedded derivatives and directed NAIC staff to sponsor a blanks proposal to clarify the guidance on the bond disposal/acquisition schedules (as shown in the agenda item) to ensure that the sale of a security to an SPV for which a debt security is acquired back from the SPV with derivative wrappers (or other components) is shown as a disposal and acquisition. The motion passed unanimously.

1. Considered Maintenance Agenda—Pending Listing

Malm made a motion, seconded by Sherman, to expose the following SAP concepts and clarifications to statutory accounting guidance for a public comment period ending Jan. 31, 2025, except for agenda item 2024-26EP, which was exposed for a public comment period ending Dec. 9, 2024. The motion passed unanimously.

1. Agenda Item 2024-20

Bruggeman directed the Working Group to agenda item *2024-20: Restricted Asset Clarification*. Gann explained that this agenda item clarifies how assets under modified coinsurance (modco) or funds withheld (FWH) agreements should be reported as restricted assets in Note 5L of statutory financial statements. She stated that it also proposes enhanced disclosures to identify the extent of restricted assets and differences between restricted asset disclosures and general interrogatories, which impact RBC formulas. Gann suggested revising life RBC instructions to clarify that if modco/FWH assets are used as collateral for purposes unrelated to the reinsurance agreement, they should not reduce RBC charges. She stated that this aligns with existing instructions that do not permit RBC credit when asset risk is not fully transferred to the assuming entity. Gann stated that the agenda item does not propose capturing modco/FWH assets in restricted asset reporting that affects general interrogatories and additional RBC charges. Instead, the agenda item suggests modifications to capture these assets in existing restricted asset disclosures, providing a complete view without additional RBC impact. She stated that NAIC staff support including these assets in restricted asset disclosures for consistency and comparability as this helps financial statement users assess available assets and borrowing capacity. She stated that the agenda item also proposes additional disclosures to identify differences between restricted assets in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* in Note 5L and the general interrogatories, addressing discrepancies and promoting uniform reporting practices.

She stated that if the proposal is adopted, there would be a recommended referral to specific RBC working groups. She stated that at the Fall National Meeting, there is only the recommendation to move to the active listing to expose the agenda item as a SAP clarification.

1. Agenda Item 2024-21

Bruggeman directed the Working Group to agenda item *2024-21: Investment Subsidiary Classification.* Gann stated that this agenda item addresses questions about classifying investments as investment subsidiaries in Schedule D-6-1 and the life RBC formula. She stated that historic *SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities* defined investment subsidiaries as noninsurance subsidiary, controlled, or affiliated entities (SCAs) holding assets for the reporting entity's benefit, measured on a statutory basis. Gann stated that historic *SSAP No. 88—Investments in Subsidiary, Controlled, and Affiliated Entities* and later *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities* eliminated this concept, requiring SCAs to be reported based on audited U.S. GAAP equity value unless they are insurance subsidiaries or engage in specific activities and pass a revenue test.

She stated that under SSAP No. 97, SCAs that received U.S. GAAP with limited statutory adjustments entities must be insurance subsidiaries or engage pass a revenue and activity test, or they are reported based on audited U.S. GAAP equity value. She stated that *SSAP No. 25—Affiliates and Other Related Parties* still reflects the concept of an investment sub for non-economic transactions, where assets are transferred at fair value but gains are deferred until permanence is verified. Gann stated that NAIC staff recommend that the Working Group expose this concept agenda item with a request for comments on the options offered to clarify statutory accounting guidelines and resulting reporting impacts for investment subsidiaries. She stated that, except for possible revisions to SSAP No. 97, the other possible actions are to sponsor blanks proposals or send referrals to the Capital Adequacy (E) Task Force and related RBC working groups with a request for revisions.

Bruggman stated that sometimes entities created for liability protection are termed disregarded entities. He stated they did not want different conclusions if the assets are owned directly from when they are held by a disregarded or other similar entity. He noted that the possibility of different or unintended treatment should be considered when reviewing the exposed concept agenda item.

1. Agenda Item 2024-22

Bruggeman directed the Working Group to agenda item *2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards*. Oden stated that this agenda item was drafted in response to *ASU 2024-01, Scope Application of Profits Interest and Similar Awards* which was issued by FASB to clarify the application of stock compensation guidance on profits interest and similar awards. As profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, FASB noted it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation—General or Other Topics). Oden also noted that the proposed revisions to *SSAP No. 104—Share-Based Payments* do not include the illustrative examples added by ASU 2024-01 but do incorporate some of the guidance provided by the illustrative examples. Oden recommended that the Working Group move this item to the active listing and categorize it as a SAP clarification to adopt, with modification, ASU 2024-01 within SSAP No. 104.

1. Agenda Item 2024-23

Bruggeman directed the Working Group to agenda item *2024-23: Derivative Premium Clarifications.* Oden noted that this agenda item was developed to address two derivative premium issues noted by NAIC staff. Oden stated that the first issue was noted during internal reviews of SSAP No. 86 and the *Annual Statement Instructions*. It was noted that the terminology for derivative financing premium was inconsistent and that the guidance for derivative financing premiums could be further clarified.

Oden noted that the second issue was identified as part of the ongoing Interest Maintenance Reserve (IMR) Ad Hoc Group meetings. NAIC staff learned that there is some confusion within the industry regarding whether statutory accounting guidance allows for derivative premium costs to be captured in the calculation of realized losses for the derivative transaction. Oden stated that within SSAP No. 86 there are several sections that provide derivative-specific accounting guidance, and within these sections, the guidance is clear that companies are to amortize derivative premium costs over the life of the derivative contract. Per SSAP No. 86, derivative premiums represent the cost to acquire or write a derivative contract and are not an “underlying” in a derivative contract, and only the change in value attributable to the derivative underlying is allowed to be capitalized to IMR as a realized loss.

Since derivative premium costs are not a component of the derivative underlying, Oden noted that NAIC staff feel the guidance is clear that derivative premium costs should not be included in losses capitalized into IMR. To ensure that this is abundantly clear, revisions have been recommended to both the “Definitions” and “Derivative Premium” sections to add language that specifically states derivative premium costs cannot be capitalized into IMR. Oden stated that NAIC staff recommend that the Working Group expose revisions to SSAP No. 86 and the *Annual Statement Instructions* to ensure consistent terminology for derivative financing premiums and to further clarify that derivative premium costs are not to be capitalized to IMR.

1. Agenda Item 2024-24

Bruggeman directed the Working Group to agenda item *2024-24: Medicare Part D – Prescription Payment Plan*. Robin Marcotte (NAIC) stated that this agenda item proposes a new interpretation that would address the application of existing statutory accounting guidance to a new payment program added to the Medicare Part D prescription drug program which is effective starting in 2025. She stated that the Medicare Prescription Payment Program (MP3) requires Medicare Part D plans to pay pharmacies upfront for enrollee out-of-pocket costs (if the enrollee has opted into MP3). The enrollees then repay the Medicare Part D Plan in installments over the remaining policy term. She stated that the program does not decrease the enrollee’s total out-of-pocket costs, but it simply allows installment payments.

Marcotte stated that reporting and accounting guidance is needed on where to report initial payments to pharmacies, related installment receivables from enrollees, and how to account for these payments. She stated that health insurance industry groups, including AHIP and Blue Cross Blue Shield Association (BCBSA), have provided input and recommendations in a letter that is included with the comment letters (Attachment One-C).

Marcotte summarized key points for the tentative *INT 24-02: Medicare Part D Prescription Payment Plans*, including that the installment receivables would be admitted if they are less than 90 days overdue. The installment receivables would be reported in the lines for health care receivables and other amounts receivable. She stated that the recommendation is to report the uncollectible (written off) installment receivables in Medicare Part D claims as there will be estimates for these losses included in premium bids. She noted that this is different from the Centers for Medicare & Medicaid Services (CMS) treatment for the medical loss ratio because CMS considers this expense to be an administrative cost and, therefore, will report the amount in the denominator of the medical loss ratios (MLRs). She noted that this proposed reporting and difference in MLR calculation would necessitate additional annual statement revisions including revisions in the Supplemental Health Care Exhibit (SHCE) instructions. She also stated additional disclosures are proposed to be researched and developed in the interim.

Marcotte stated that NAIC staff recommend that the Working Group expose the draft INT 24-02and expose minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. She stated that the edits to INT 05-05 would add a reference to the proposed INT 24-02 regarding Medicare Part D prescription payment plans. She stated that the Working Group should also send notice of the exposure to the Health Insurance and Managed Care (B) Committee and the Health Risk-Based Capital (E) Working Group, and direct NAIC staff to coordinate with Blanks (E) Working Group staff to develop an annual statement blanks proposal in the interim and to develop disclosures for future inclusion in relevant SSAPs.

Bruggman noted that with the installment process, to the extent the amounts are not recovered from the enrollees, the recommendation to report as a claim makes some sense to him.

1. Agenda Item 2024-25

Bruggeman directed the Working Group to agenda item *2024-25: SSAP No. 16 ASU Clarification*. Jake Stultz (NAIC) stated that this agenda item was developed when staff noted instances in *SSAP No. 16—Electronic Data Processing Equipment and Software* where the FASB ASC topic has been referenced directly instead of the adopted ASU. When FASB adopts guidance, it is issued through an accounting standards update which formally adopts the guidance into the FASB accounting codification. The Working Group will then address the guidance in the ASU, which is the guidance at a moment in time, instead of the actual ASC, which represents guidance that will change over time as other ASUs are adopted. As the guidance stands now, a new ASU could be issued that impacts the ASC sections that are referenced in the SSAP, thereby changing statutory accounting guidance without the Working Group addressing and considering the issue. This agenda item proposes to add the effective ASUs to each of these references where it is missing in SSAP No. 16.

1. Agenda Item 2024-26EP

Bruggeman directed the Working Group to agenda item *2024-26EP: Fall 2024 Editorial Revisions.* Oden stated the disclosure in SSAP No. 26, paragraph 39e is an existing disclosure (pre-bond-definition revisions). However, the pre-bond-definition version of the disclosure included directions for disclosure by Schedule D broad reporting categories, with categories listed in the SSAP. These reporting categories were removed from the adopted revised SSAP No. 26 disclosure, effective Jan. 1, 2025. Although this disclosure is satisfied by the completion of Schedule D-1-1 and D-1-2 for statutory accounting purposes, comments have been made that the adopted revised language could require a listing of all bonds in the audited financial statements. As such, editorial revisions have been proposed to reinstate the prior language for receiving bond treatment. As adopted, revised *SSAP No. 43—Asset-Backed Securities*, paragraph 44m, points to this SSAP No. 26 disclosure for asset-backed securities (ABS) items and includes reference to reporting categories. A listing of the reporting categories is not deemed necessary within SSAP No. 26. Bruggeman stated support for this clarification.

1. Discussed Other Matters
2. Review of U.S. GAAP Exposures

Stultz identified two U.S. GAAP items currently exposed by the FASB (Attachment One-I). He stated that comments are not recommended at this time and that NAIC staff recommend a review of the final issued ASUs under the SAP maintenance process as detailed in *Appendix F—Policy Statements*.

1. Update on the IMR Ad Hoc Group

Marcotte stated that the IMR Ad Hoc group has met regularly since their first meeting in October 2023. Since the Summer National Meeting, the discussions have focused on IMR from reinsurance transactions. The reinsurance discussion is complex, and after assessing the application/interpretation of existing guidance, the group has directed a reassessment of guidance. With this approach, it is intended that principles for accounting/reporting of IMR in response to reinsurance transactions (including for the cedent, assuming entity, and in the event of recapture) will be established for application. Bruggeman stated that they have tried to group topics into four broad categories that can be brought to the Working Group for discussion in 2025.

1. Update on the Bond Project Implementation/Bond Small Group

Marcotte stated that the Bond Small Group has concluded its regular meetings. The group addressed the items presented and referred the Q&A to the Working Group. Based on issues or questions raised, the group may resume future discussions as necessary.

1. Use of Third-Party Vendors/Checklists to Determine Bond Definition Compliance/Classification

Bruggeman stated that vendors have developed tools or checklists to determine bond definitions and recommended that users exercise caution when using these resources. He reminded the group that this is a principle-based bond definition, and some tools might be more rule-based. If a tool provides direct inputs and outputs, it might be too rigid. Therefore, he urged caution and to "trust but verify." He stated that, if tools are available in this program, use them, but don't blindly accept the results.

Clark stated that they are not discouraging the use of technology for classification, as it is often necessary. However, he cautioned against tools that overpromise by claiming they can automatically classify pass versus fail for all investments. Given that this is a principles-based and judgmental standard, he advised using caution and ensuring ownership of the process.

1. Update on the IAIS AAWG

Marcotte stated that Gann and Maggie Chang (NAIC) monitor International Association of Insurance Supervisors (IAIS) discussions. There have been no significant discussions since the Summer National Meeting. Beginning in November 2024, it is anticipated that NAIC staff will review the 200 pages of comments received on the exposed IAIS climate risk materials and propose revisions to the application paper.

1. Update on Reinsurance Exposures

Marcotte stated that three reinsurance-related agenda items *#2024-05: A-791, Paragraph 2c.*; *#2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts*; and *#2024-07: Reporting of Funds Withheld and Modco Assets*, were exposed at the Summer National Meeting. Agenda items 2024-05 and 2024-06 are related to referrals from the Valuation Analysis (E) Working Group, and 2024-07 are for the new modco disclosures. All three of these items have had delayed comment deadlines at the request of the American Council of Life Insurers (ACLI), and the Working Group requested that they provide a short update at this meeting.

Carrie Haughawout (ACLI) stated that ACLI members continue to believe that the two proposals, agenda items 2024-05 and 2024-06, are inextricably linked and should be considered together. She stated that ACLI members have noted that maintaining the language in A-791, paragraph 2c, is helpful because it reflects the fact that each contract is evaluated using the applicable statutory accounting risk transfer guidance and the specific facts and circumstances inherent in the agreement including premium levels. She stated that if more specifics can be established in 2024-06, additional changes to 2024-05, as currently contemplated, may be more appropriate. She stated that, ultimately, the ACLI concern continues to be that without more guidance about how to apply this concept of risk transfer analysis, there may be a diversity of practice about how the regulation could be applied, leading to more inconsistency across the states rather than less. She stated that, as a result, the ACLI would suggest a small working group of regulators and industry with an agreed-upon timeline to help structure the necessary guidance.

Marc Altschull (ACLI) spoke about agenda item 2024-07. He stated that ACLI members have had productive conversations with NAIC staff and regulators on this proposal. He noted that ACLI members have concerns about reporting confidential, treaty-level information regarding assets and pricing in a public filing. Additionally, the timing of this requirement could cause a resource strain with the bond project currently being a priority for the industry and third-party vendors. He noted that they look forward to discussion with the Working Group. Bruggeman stated he looks forward to a constructive conversation on the topic on Dec. 17.

1. Lloyd’s Coordination

Stultz stated that NAIC staff have received questions on Lloyd’s removal of several syndicates, and it is causing some confusion on reinsurance schedule reporting. NAIC staff has had preliminary conversations and is coordinating with Lloyd’s staff to determine if any additional guidance needs to be shared with the Blanks (E) Working Group.

1. Dec. 17 Meeting

Bruggeman noted that the Working Group has scheduled a meeting for Dec. 17 for items with Nov. 8 and Dec. 9 comment deadlines.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/...