KPMG

NAIC Spring Meeting

Issues & Trends

Latest actions include adoption of guidance related to residual tranches and tax credit investments as well as exposure of reinsurance related topics.

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Meeting highlights

During its Spring meeting and on calls before it, the National Association of Insurance Commissioners (NAIC) **adopted** the following guidance.

- SSAP No. 21R, to add the earned yield with a cap method to measure residual tranches or interests (residuals), with a practical expedient that allows the use of the cost recovery method.
- SSAP No. 93 to update guidance for tax credit investments, to SSAP No. 94 to clarify the scope, and to SSAP Nos. 34 and 48 to make them consistent with SSAP Nos. 93 and 94.

The NAIC **exposed** revisions to the following guidance.

- SSAP No. 26R to clarify that debt securities issued by funds that represent operating entities are issuer credit obligations.
- SSAP No. 56 to expand and provide consistent accounting guidance for reporting book value assets in separate accounts.
- SSAP No. 61R to add guidance from SSAP No. 62R, Exhibit A Q&A requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features and add a reference to Appendix A-791.
- SSAP Nos. 63 and 25 to address transfers of assets when modifying intercompany pooling arrangements and reexpose its intent to nullify INT 03-02 as it is inconsistent with SSAP No. 25 for economic and non-economic related party transactions.
- Request for comment about elements related to asset adequacy analysis for insurance ceded by life insurers.
- Revised framework for regulation of insurer investments and related recommended work plan.

The NAIC **discussed** the following guidance:

- Amendment to the Purposes and Procedures Manual (PPM) of the NAIC Investment Analysis Office authorizing the procedures for the Securities Valuation Office (SVO's) discretion over NAIC designations assigned through the Filing Exempt (FE) process.

Accounting highlights >>	
Asset valuation reserve and interest maintenance reserve	SAPWG discussed its long-term project to include additional accounting guidance for the asset valuation reserve (AVR) and interest maintenance reserve (IMR) within SSAP No. 7.[1]
IMR and AVR for preferred stock	SAWPG adopted revisions to the Annual Statement Instructions to exclude realized gains or losses on perpetual preferred and mandatory convertible preferred stock from IMR and report them through AVR, regardless of NAIC designation.
Disclosures for borrowings	SAPWG exposed revisions to SSAP Nos. 15 and SSAP No. 103R to adopt, with modification, certain disclosures for unused commitments, lines of credits, repos and secured borrowings from ASU 2023-06.[2] Comments are due May 31, 2024.
Common control arrangements	SAPWG exposed revision to SSAP Nos. 19 and 73 to adopt, with modification, the leasehold improvement guidance from ASU 2023-01 but reject the practical expedient granted by that ASU.[3] Comments are due May 31, 2024.
Accounting for and disclosure of crypto assets	SAPWG exposed revisions to SSAP No. 20 to adopt, with modification, ASU 2023-08 by including a definition of crypto assets and adding guidance previously included in INT 21-01 that crypto assets are nonadmitted for statutory accounting.[4] The exposure proposes to nullify INT 21-01. Comments are due May 31, 2024.
Principles-based bond definition – residuals	SAPWG adopted revisions to SSAP No. 21R to add the earned yield with a cap method to measure residuals, with a practical expedient that allows the use of the cost recovery method.[5] The changes are effective January 1, 2025, with

1 SSAP No. 7, Asset Valuation Reserves and Interest Maintenance Reserves

2 SSAP No. 15, Debt and Holding Company Obligations; SSAP No. 103, Transfers and Servicing of Financial Assets and Extinguishments of Liabilities; ASU 2023-06, Disclosure Improvements

3 SSAP No. 19, Furniture, Fixtures, Equipment and Leasehold Improvements; SSAP No. 73, Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities; ASU 2023-01, Leases (Topic 842): Common Control Arrangements

4 SSAP No. 20, Nonadmitted Assets; ASU 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60); INT 21-01, Accounting for Cryptocurrencies

5 SSAP No. 21R, Other Admitted Assets

Accounting highlights >>	
	guidance for residuals allowed to be early adopted for 2024.
Principles-based bond definition – debt securities issued by funds	SAPWG reexposed revisions to SSAP No. 26R incorporating the principles-based bond definition to clarify that debt securities issued by funds that represent operating entities are issuer credit obligations.[6] The revisions would be effective January 1, 2025. Comments are due May 31, 2024.
Consistency revisions for residuals	SAPWG exposed revisions to SSAP Nos. 26R, 30R, 32R, 43R and 48 to add consistency for residuals, by referring to SSAP No. 21R for the formal definition, accounting and reporting guidance in all SSAPs.[7] Comments are due May 31, 2024.
Off balance sheet and credit risk disclosures	SAPWG exposed revisions to SSAP No. 27 to remove the reference to FAS 105 and specifically list financial instruments excluded from the SSAP and Annual Statement Instructions. Comments are due May 31, 2024.
New market tax credits and tax equity investments	SAPWG adopted revisions to SSAP No. 93 to update guidance for tax credit investments, to SSAP No. 94 to clarify its scope, and to SSAP Nos. 34 and 48 to ensure consistency with SSAPs No. 93 and 94.[8] The effective date is January 1, 2025.
Book value separate accounts	SAPWG exposed a proposal to expand the guidance in SSAP No. 56 to address and provide consistent accounting guidance for reporting book value assets in separate accounts.[9] Comments are due May 31, 2024.

6 SSAP No. 26R, Bonds

7 SSAP No. 30, Unaffiliated Common Stock; SSAP No. 32R, Preferred Stock; SSAP No. 43R, Loan-Backed and Structured Securities.

8 SSAP No. 93, Investments in Tax Credit Structures; SSAP No. 94R, State and Federal Tax Credits; SSAP No. 34, Investment Income Due and Accrued; SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies.

9 SSAP No. 56, Separate Accounts

Accounting highlights >>	
Mortgage guaranty insurance	SAPWG discussed the project to update SSAP No. 58 and Appendix A-630 to address changes in the Mortgage Guaranty Insurance Model Act.[10] It directed NAIC staff to develop revisions to SSAP No. 58 and Appendix A-630 for future discussion.
Risk transfer analysis on reinsurance contracts with interrelated features	SAPWG exposed revisions to SSAP No. 61R to add a reference to Appendix A-791 and guidance from SSAP No. 62R, Exhibit A Q&A requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features.[11] Comments are due May 31, 2024.
Reporting of funds withheld and modified coinsurance assets	SAWPG exposed a recommendation to add a new part to Schedule S in the Life, Fraternal and Health Annual Statement and Schedule F in the Property, Casualty and Title Annual Statements, to require disclosure of assets held under a funds withheld arrangement and a separate identifier for modified coinsurance assets. Comments are due May 31, 2024.
Intercompany pooling	SAPWG exposed revisions to SSAP Nos. 63 and 25 to address transfers of assets when modifying intercompany pooling arrangements and reexposed its intent to nullify INT 03-02 as it is inconsistent with SSAP No. 25 for economic and noneconomic related party transactions.[12] Comments are due May 31, 2024.
Investments in downstream holding companies	SAWPG adopted revisions to SSAP No. 97 to clarify the admissibility guidance for downstream noninsurance holding companies.[13]
Improvements to income tax disclosures	SAPWG exposed revisions to SSAP No. 101 to adopt, with modification, ASU 2023-09.[14] Comments are due May 31, 2024.

[10] SSAP No. 58, Mortgage Guarantee Insurance; Appendix A-630, Mortgage Guarantee Insurance

[11] SSAP No. 61R, Life, Deposit-Type and Accident and Health Reinsurance; SSAP No. 62R, Property and Casualty Reinsurance; Appendix A-791, Life and Health Reinsurance Agreement

[12] SSAP No. 63, Underwriting Pools; SSAP No. 25, Affiliates and Other Related Parties; INT 03-02, Modification to an Existing Intercompany Pooling Arrangement

[13] SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities

[14] SSAP No. 101, Income Taxes; ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures

Accounting highlights >>	
Securities lending programs and repurchase agreements	SAPWG directed the NAIC staff to work with industry to determine the current application and interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral.
Risk-sharing disclosures	SAPWG exposed revisions to SSAP No. 107 to remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired.[15] This change would be effective for December 31, 2024. Comments were due April 19, 2024.
Actuarial highlights >>	
Non-variable annuities	The Life Actuarial Task Force (LATF) exposed VM-22 Field test specifications and VM-22 field test template.[16] Comments were due April 15, 2024.
Asset adequacy testing	LATF exposed a request for comment about elements related to asset adequacy testing for reinsurance ceded by life reinsurers. Comments were due April 8, 2024.
Non-US mortality tables	LATF exposed a proposal to permit insurers to use non-US mortality tables to value non-US blocks of business for life and annuity products subject to VM-20 and VM-21.[17] Comments are due May 17, 2024.
Generator of Economic Scenarios (GOES) acceptance criteria	LATF discussed comments on the GOES acceptance criteria. Interested parties continued to express concern with the generator. LATF has not yet determined a timeline for deployment of GOES.
Risk-based capital >>	
Residual tranches	The Risk Based Capital (RBC) Investment Risk Evaluation (IRE) Working Group exposed a report on residual tranche risk analysis prepared by Oliver Wyman. Comments were due April 8, 2024.

15 SSAP No. 107, Risk-Sharing Provisions of the Affordable Care Act

16 VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities

17 VM20, Requirements for Principle-Based Reserves for Life Products; VM-21, Requirements for Principle-Based Reserves for Variable Annuities

Risk-based capital >>	
Residual charge – property and casualty	The Capital Adequacy Task Force exposed a proposal to the property and casualty and health RBC schedules and instructions to conform the RBC structure changes and the charge for residuals tranches to 45%, to align with the Life and Fraternal RBC schedule and instructions. Comments were due April 15, 2024.
Repurchase agreements	The Life RBC Working Group reexposed proposed revisions to make the RBC charge consistent between repurchase agreements and securities lending programs. Comments were due April 15, 2024.
Climate scenario analysis	The P&C RBC Working Group exposed a proposal for disclosure of climate condition catastrophe exposure. Comments were due April 8, 2024.
Valuation of Securities Task Force >>	
NAIC designation definition	The Valuation of Securities Task Force (VOSTF) discussed comments on a previously exposed amendment to the PPM of the NAIC Investment Analysis Office to update the definition of an NAIC designation.
SVO discretion in determination of NAIC designations	VOSTF discussed comments about a previously exposed amendment to the PPM of the NAIC Investment Analysis Office authorizing the procedures for the SVO's discretion over NAIC designations assigned through the filing exemption (FE) process.
Other developments >>	
Framework for regulation of insurer investments	Before the Spring meeting, the Financial Condition Committee exposed a revised framework for regulation of insurer investments and related recommended work plan. Comments were due April 1, 2024.

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Accounting highlights

Asset valuation reserve and interest maintenance reserve

SAPWG discussed progress on its long-term project to include additional accounting guidance for AVR and IMR in SSAP No. 7. SAPWG stated that the IMR ad hoc group focused on:

- information of how IMR affects actuarial calculations;
- the definition and purpose of IMR;
- the effect of derivatives on IMR; and
- the effect of reinsurance on IMR.

Future discussions are expected to focus on how insurers determine effectiveness for economically effective derivatives that do not qualify for hedge accounting under SSAP No. 86, as well as the concepts insurers have used to determine the amortization period for IMR generated from derivatives gains or losses.[18]

IMR and AVR for preferred stock

Action. SAWPG adopted revisions to the Annual Statement Instructions to exclude realized gains or losses on perpetual preferred and mandatory convertible preferred stock from IMR and report them through AVR, regardless of NAIC designation.

These revisions:

- treat all perpetual preferred and mandatory convertible preferred stocks as an equity instrument similar to common stock by removing the requirement to allocate the realized gains or losses for these instruments based on NAIC designation; and
- clarify that perpetual stock includes SVO-Identified Preferred Stock ETFs.

Disclosures for borrowings

Action. SAPWG exposed revisions to SSAP Nos. 15 and 103R to adopt, with modification, certain disclosures for unsecured commitments, lines of credit, repos and secured borrowings from ASU 2023-06. Comments are due May 31, 2024.

The revisions to SSAP No. 15 would add disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term, including the amount and terms of unused:

[18] SSAP No. 86, Derivatives

- commitments for financing arrangements, including commitment fees and the conditions under which commitments may be withdrawn; and
- lines of credit for financing arrangements, including commitment fees and the conditions under which lines may be withdrawn, including the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

The revisions to SSAP No. 103R would include requirements to disclose:

- separate listing of assets underlying reverse repurchase agreements if the aggregate carrying amount of reverse repurchase agreements exceeds 10% of total admitted assets and any provisions beyond collateral requirements to protect against counterparty defaults, including description of the nature of those provisions; and
- the names of counterparties or group of related counterparties, the amount at risk for each and the weighted average maturity of repurchase or reverse repurchase agreements if the amount at risk under these agreements with any individual counterparty or group of related counterparties exceeds 10% of adjusted capital and surplus.

Common control arrangements

Action. SAPWG exposed revision to SSAP Nos. 19 and 73 to adopt, with modification, the leasehold improvement guidance from ASU 2023-01 but reject the practical expedient granted by that ASU. Comments are due May 31, 2024.

Proposed revisions direct insures to:

- amortize leasehold improvements related to a lease between entities under common control over the useful life of those improvements to the holding company group, as long as the lessee maintains control of the underlying asset through the lease; and
- limit the amortization period to that of the holding company group if the lessor gains control through a lease with an entity outside the holding company group.

Accounting for and disclosure of crypto assets

Action. SAPWG exposed revisions to SSAP No. 20 to adopt, with modification, ASU 2023-08 by including a definition of crypto assets and adding guidance previously included in INT 21-01 that crypto assets are nonadmitted for statutory accounting. The exposure proposes to nullify INT 21-01. Comments are due May 31, 2024.

The proposed revisions:

- define crypto assets as intangible digital assets based on blockchain technology and verified by decentralized cryptographic systems, but do not provide enforceable rights to underlying assets; and
- establish that directly held crypto assets do not meet the definition of cash under SSAP No. 2R and due to their volatility and liquidity issues, are not considered available to satisfy policyholder obligations.

Principles-based bond definition – Residuals

Action. SAPWG adopted revisions to SSAP No. 21R, to add the earned yield with a cap method (the Allowable Earned Yield method) to measure residuals, with a practical expedient that allows the use of the cost recovery method. The changes are effective January 1, 2025, with guidance for residuals allowed to be early adopted for 2024.

The revisions include:

- adding transition guidance for residuals that were previously accounted under different SSAPs that will now be accounted under SSAP No. 21R, including unrealized gains and losses that are recorded at December 31, 2024 for residuals, to be realized on adoption;
- clarifying that residuals follow the admissibility guidance in SSAP No. 21R, therefore residuals in the form of a SSAP No. 48 investment are not required to obtain an audit to be an admitted asset;
- stating that once classified as a residual, the investment will be reported as such until disposal; and
- changing the other-than-temporary impairment (OTTI) guidance by requiring the use of the earned yield method and allowing the use of a practical expedient that considers OTTI to have occurred when the residual has a fair value less than its reported book adjusted carrying value.

Principles-based bond definition – Debt securities issued by funds

Action. SAPWG reexposed revisions to SSAP No. 26R to clarify that debt securities issued by funds that represent operating entities are issuer credit obligations. The revisions would be effective January 1, 2025. Comments are due May 31, 2024.

Interested parties requested that SAPWG:

- use the word ‘prudent’ rather than ‘marginal’ when describing the amount of debt that may be issued by an operating entity to fund operations or produce returns to equity holders; and

- allow consistent treatment of securities issued by business development companies, closed-end funds, and private funds by categorizing them as issuer credit obligations under SSAP No. 26R.

SAPWG stated that some insurers interpreted the proposed guidance to permit debt issued from feeder funds to be classified as issuer credit obligations. It clarified that the guidance was not intended to eliminate the assessment of feeder funds as asset-backed securities to determine whether the debt instrument qualifies for bond reporting, particularly when the underlying feeder fund investments are equity interests. The intent of the previously exposed revisions was to eliminate differences that could occur in bond classification for debt issued by funds having the purpose of raising equity capital that is seemingly identical except for SEC registration status.

With the re-exposure SAPWG requested comments about proposed language that:

- assists with clarifying the scope of the guidance and the types of debt securities issued by funds that should be considered as operating entities; and
- would better define the extent of debt that may be issued to fund operations.

Consistency revisions for residuals

Action. SAPWG exposed revisions to SSAP Nos. 26R, 30R, 32R, 43R and 48 to add consistency for residuals, by referring to SSAP No. 21R for the formal definition, accounting and reporting guidance in all SSAPs. Comments are due May 31, 2024.

The revisions remove any accounting and reporting guidance about residuals from SSAPs Nos. 26R, 30R, 32R, 43R and 48 and add reference to SSAP No. 21. These revisions are needed to ensure consistency in reporting and guidance for residual interests.

Off balance sheet and credit risk disclosures

Action. SSAP exposed revisions to SSAP No. 27 to remove the reference to FAS 105 and specifically list financial instruments excluded from the SSAP and Annual Statement Instructions. Comments are due May 31, 2024.

The proposed revisions to SSAP No. 27 state that the following financial instruments are excluded from its scope:

- insurance contracts, not held as an investment;
- unconditional purchase obligations;

- obligations and financial instruments within the scope of SSAP No. 92 and SSAP No. 102; [19]
- substantively extinguished liabilities as defined within SSAP No. 103R; and
- leases as defined within SSAP No. 22R. [20]

The revision would also update the Annual Statement Instructions for financial instruments with off balance sheet risk and concentration of credit risk including adding disclosures for:

- ‘other’ assets and liabilities, specifically:
  - loan commitments;
  - standby letters of credit;
  - financial guarantees; and
  - other;
- amount of insurer’s credit exposure related to outstanding derivatives contracts reported in ’other’ that consist of treasury lock and forward contracts;
- insurer’s nonderivative off-balance sheet exposures, that include loan commitments, standby letters of credit, and financial guarantees that are not recorded on the insurer’s balance sheet but represent the maximum liability the insurer may incur from these contracts;
- approximate percentage of insurer’s premium due from policyholders who reside in the state of Missouri and that the insurer is in good standing with that state; and
- approximate percentage and dollar amount of mortgage loan assets due from a single borrower operating in biomedical industry within the state of Kansas.

New market tax credits and tax equity investments

Action. SAPWG adopted revisions to SSAP No. 93 to update guidance for tax credit investments, to SSAP No. 94 to clarify the scope, and to SSAP Nos. 34 and 48 to make them consistent with SSAP Nos. 93 and 94. The effective date is January 1, 2025.

Before the Spring meeting, the SAPWG exposed revisions to:

- remove the initial assessment of the current portion of unallocated tax credits for the prospective utilization assessment and require that it be performed only if certain conditions exist; and
- make minor clarifications to SSAP Nos. 34, 93R and 94.

[19] SSAP No. 92, Postretirement Benefits Other Than Pensions; SSAP No. 102, Pensions

[20] SSAP No. 22R, Leases

SAPWG also requested feedback on the reporting categories to be used for tax credit investments in Schedule BA once the SSAP No. 93 revisions are adopted.

Interested parties:

- suggested two reporting options:
  - remove the Schedule BA reference to Low Income Housing Tax Credit (LIHTC) investments if the expectation is that RBC charges will remain the same regardless of tax credit program type; or
  - have two separate sections in each category, for debt and equity investments, since the SSAP now scopes in all tax credit investments regardless of whether they are in debt or equity form;
- requested additional information about the expected RBC framework that would allow them to provide better feedback on appropriate reporting lines;
- suggested clarifying the Annual Statement Instructions for LIHTC investments to eliminate diversity in the interpretation; and
- observed an inconsistency in an example within SSAP No. 93 where the full investment was shown as being amortized without excluding the residual value, which is inconsistent with guidance within the SSAP.

The adopted revisions:

- included an update to example two, qualifying tax credit investment structure with non-income tax related benefit, within SSAP No. 93 illustrating that the residual value is excluded from the value of investments amortized under the proportional amortization method; and
- removed the Schedule BA reference to LIHTC investments.

Next Steps. SAPWG directed the NAIC staff to:

- sponsor a blanks proposal for the Annual Statement reporting categories for tax credit investment RBC to maintain the same categories on Schedule BA but without reference to LIHTC, as suggested by interested parties;
- send a referral to the Life RBC Working Group to inform them of the planned reporting line changes; and
- direct staff to draft an Issue Paper for the revisions to SSAP Nos. 93 and 94.

Book value separate accounts

Action. SAPWG exposed a proposal to expand the guidance in SSAP No. 56 to provide consistent accounting guidance when assets are reported in separate accounts at a measurement method other than fair value, referred to as book value. Comments are due May 31, 2024.

The guidance in SSAP No. 56 primarily focuses on separate account products where the policyholder bears the investment risks. In these situations, the assets in the separate account are reported at fair value. However, there is no guidance about how transfers should occur between the separate account and general account when the assets will be retained and reported at book value. Specifically, whether assets should be disposed or recognized at fair value when transferring between the general account and the separate account including:

- subsequent measurement of the investments in the general account; or
- whether the assets should be transferred at the book value reported in the existing account.

Next Step: SAPWG directed NAIC staff to work with industry to determine the current application and differences in interpretations for the reporting of book value assets and to propose revisions to incorporate a consistent statutory accounting approach.

Mortgage guaranty insurance

SAPWG discussed a project to update SSAP No. 58 and Appendix A-630 to address changes in the Mortgage Guaranty Insurance Model Act.

Next step: The Working Group directed NAIC staff to develop updates to SSAP No. 58 and Appendix A-630 for future discussion. It stated that because there are less than ten mortgage guaranty insurers, the NAIC staff will work with the affected states on the proposed effective date for these revisions.

Risk transfer analysis on reinsurance contracts with interrelated features

Action. SAPWG exposed revisions to SSAP No. 61R to add guidance from SSAP No. 62R, Exhibit A Q&A requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features and to add a reference to Appendix A-79. Comments are due May 31, 2024.

Proposed revisions include:

- clarification that if agreements with a reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured; and
- addition of a statement that yearly renewable term agreements should follow the requirements of Appendix A-791, paragraph 6 for the entire agreement and the effective date of agreements.

These proposed revisions are in response to observations by the regulators related to insurers evaluating reinsurance for risk transfer in accordance with SSAP No. 61R when treaties involve multiple types of reinsurance and there is interdependence between them. Regulators observed that some insurers are reporting an overstated reserve credit due to a bifurcated risk transfer analysis.

Reporting of funds withheld and modified coinsurance assets

Action. SAWPG exposed a recommendation to add a new part to the Schedule S in the Life, Fraternal and Health Annual Statement and Schedule F in the Property, Casualty and Title Annual Statements to require disclosure of assets held under a funds withheld arrangement with a separate identifier for modified coinsurance assets. Comments are due May 31, 2024.

These proposed revisions are a result of regulators having difficulty identifying assets that are subject to funds withheld or modified coinsurance arrangements within the financial statements and reporting schedules. The intent of these proposed revisions is to make it easier to identify such assets.

Intercompany pooling

Action. SAPWG exposed revisions to SSAP Nos. 63 and 25 to address transfers of assets when modifying intercompany pooling arrangements and reexposed its intent to nullify INT 03-02 as it is inconsistent with SSAP No. 25 for economic and noneconomic related party transactions. Comments are due May 31, 2024.

Revisions to SSAP No. 25 would:

- add a reference to SSAP No. 63 for accounting and valuation of existing intercompany pooling arrangements, including transfer of assets; and
- specify that guidance for the modification of intercompany pooling arrangements should not be applied or analogized to other transactions involving transfer of assets and liabilities.

Proposed revisions to SSAP No. 63 provide guidance for the modification of intercompany pooling arrangements including directing insurers to:

- use statutory book value of assets and statutory book value of liabilities when transferring assets and liabilities among affiliates;
- use the net amount of assets and liabilities to be transferred between affiliated insurers to settle intercompany payable or receivables that result from modification of intercompany pooling arrangements and;
- disclose the statement value and fair value of assets received or transferred by the insurer when transferred assets have a fair value different from their cost or amortized cost.

The NAIC staff stated that the guidance in INT 03-02 can result in unrecognized gains or losses by allowing the use of the statutory book valuation when using assets such as bonds to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. They suggested that the treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance pooling transactions.

Interested parties recommended replacing the guidance in INT 03-02 with additional guidance in SSAP No. 25 and SSAP No. 63, which was exposed with minor modifications.

Investments in downstream holdings companies

Action. SAWPG adopted revisions to SSAP No. 97 to clarify the admissibility guidance for downstream noninsurance holding companies.

The revisions clarify that, if the downstream noninsurance holding company does not meet the requirements to apply the look-through methodology to determine admissibility of downstream investments in subsidiary, controlled and affiliated entities, audited US GAAP financial statements are required to admit the investment in the downstream noninsurance holding company.

Improvements to income tax disclosures

Action. SAWPG exposed revisions to SSAP No. 101 to adopt, with modification, ASU 2023-09. Comments are due May 31, 2024.

The proposed disclosure revisions would:

- remove disclosure of the cumulative amount of each type of temporary tax difference when a deferred tax liability is not recognized for undistributed foreign earnings;
- disaggregate the disclosure of income or loss before income tax expense/benefit by domestic and foreign;
- disaggregate income tax expense or benefit and income taxes paid, net of refunds received, by federal (national), state, and foreign;
- add disclosures of income taxes paid, net of refunds received, to each individual jurisdiction in which income taxes paid, net of refunds received, is equal to or greater than 5% of total income taxes paid, net of refunds received; and
- add qualitative disclosures about tax rate reconciling items.

The objective of the new US GAAP guidance is for entities, particularly those operating in multiple jurisdictions, to disclose sufficient information to allow users of financial statement to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.

Securities lending programs and repurchase agreements

In response to a referral from the Life RBC Working Group to converge RBC treatment for securities lending programs and repurchase agreements, SAWPG discussed the differences in accounting and reporting between these instruments.

It stated that:

- Schedule DL details security lending collateral but does not include repurchase agreement collateral. SAPWG observed that if securities lending and repurchase agreements are both short-term collateralized funding for life insurers then consistent reporting of the collateral may be appropriate;
- A new general interrogatory disclosure will be needed to capture repurchase collateral from conforming programs pulling that information directly into the RBC formula. Additionally, SAPWG suggested that guidance about ‘conforming program’ in the RBC instructions may need to be included into the Annual Statement Instructions; and
- Based on review of year-end 2022 financial statements, SAPWG stated that insurers may have differences in interpretation the requirement for ’acceptable collateral’, suggesting that a clarification of guidelines on what is considered conforming or nonconforming may be needed.

Next Step. SAPWG directed the NAIC staff to work with industry to determine the current application and interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral.

Risk-sharing disclosures

Action. SAWPG exposed revisions to SSAP No. 107 to remove the transitional reinsurance program disclosures and the risk corridor disclosures because both programs have expired. This change would be effective for December 31, 2024. Comments were due April 19, 2024.

SSAP No. 107 includes significant financial statement disclosure requirements for the three risk sharing programs of the Affordable Care Act – reinsurance, risk corridor and risk adjustment. Because two of these programs have expired, SAPWG proposed to remove disclosures about them.

3 Actuarial highlights

Non-variable annuities

Action. LATF exposed VM-22 field test specifications and VM-22 field test template. Comments were due April 15, 2024.

The objective of the field test will be to measure the effect on actual business of the proposed VM-22 reserve and capital framework relative to the current standards to ensure the frameworks are working as intended. The framework is designed to appropriately reflect risk, be comprehensive, consistent across products, and practical. The field test will cover deferred annuities and payout annuities. It is expected to be performed between July and September 2024 and will look at the effect of key open VM-22 design decisions including:

- aggregation
- reinvestment guardrails
- exclusion test; and
- Standard Projection Amount (SPA) assumptions

The VM-22 Subgroup reported to LATF that their most recent discussions focused on:

- liability assumptions for the SPA, primarily related to mortality and dynamic lapse assumptions and a proposal on non-indexed, fixed deferred annuity surrender assumptions; and

- VM-31 disclosures, specifically non-guaranteed element disclosures, a section on payout annuities that automatically pass the exclusion test and whether to make a separate VM-31 section for non-variable annuities. [21]

The Subgroup stated that when the remaining liability assumptions are discussed, it will expose the VM-22 SPA requirements with a set of tentative assumptions.

The Subgroup stated that the goal is to present results from the field test by early first quarter 2025 and adopt VM-22 by summer, 2025 with an effective date of January 1, 2026 with three-year adoption period.

Asset adequacy testing

Action. LATF exposed request for comment about elements related to asset adequacy testing for insurance ceded by life insurers. Comments are due May 17, 2024.

[21] VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

LATF requested comments about:

- the terminology and concept of testing for reserve adequacy when business is ceded, including in situations when:
  - the assuming insurer does not submit a VM-30 actuarial memorandum to a US state regulator;
  - the assuming insurer holds reserves lower than US statutory reserves;
  - collectibility risk associated with the assuming reinsurer is significant, or
  - the treaty involves an affiliated transaction;
- narrowing the scope of requirements for the ceding insurer to test the adequacy of reserves while not violating existing federal laws and rules and in-force covered agreements, e.g. materiality;
- appropriate level of aggregation to account for availability of cash flows to support a certain treaty or a certain group of treaties;
- applicability of the requirement, i.e. treaties developed on or after January 1, 2020, and whether or not it should be retroactive, including the need for additional language about exemptions;
- approaches that could serve as an alternative to cash flow testing to demonstrate the adequacy of reserves, and assets supporting reserves, while still providing a level of rigor and quantification that provides comfort to regulators; and
- ways to design a cash-flow testing requirement that would be more efficient or less burdensome than others.

LATF discussed the proposal, stating that its goal is to balance a targeted scope without risking violation of any regulations, for example, the covered agreement. Some regulators expressed concern with the proposal, questioning the use of asset adequacy testing to evaluate reserve adequacy because the asset adequacy model was not designed for that purpose. Interested parties suggested that LATF consider methods and alternative other than asset adequacy testing to address their concern. LATF determined that feedback is needed on key aspects of the proposal including whether alternatives exist to mitigate its concerns.

Background. On calls before the Spring meeting, LATF introduced a proposal to require life insurers to perform asset adequacy testing using a cash flow testing methodology at the line of business level, within each individual treaty separately for life insurance, annuities, long duration health insurance. The proposed requirement is based on regulatory concerns that:

- life insurers may enter into reinsurance transactions that materially lowers the total asset requirement in support of their asset-intensive business, and thereby facilitate releases of capital that may not be aligned with the interests of their policyholders; and
- assets supporting those ceded reserves are invested such that the liabilities can all be paid back when they become due.

Non-US mortality tables

Action. LATF exposed a proposal to permit insurers to use non-US mortality tables to value non-US blocks of business for life and annuity products subject to VM-20 and VM-21. Comments were due April 8, 2024

The sponsor of the proposal stated that insurers that operate branches in foreign countries insure residents in those countries but will be required to use PBR and therefore use US mortality assumptions for valuation of reserves. This could make difficult to compete in local markets. This proposal would align the mortality tables used to value reserves with the population being insured. The presenter acknowledged that this proposal would affect only one insurer.

Some regulators questioned the proposal's purpose and whether it is designed to encourage a specific practice. However, others stated that this situation could be a broader issue and that the proposal was sound.

Generator of Economic Scenarios (GOES) acceptance criteria

LATF discussed comments on the GOES acceptance criteria. Interested parties generally expressed support for the work done thus far, but continued to express concern with the generator including:

- the scope being too limited and a request for additional targeting criteria and evaluation statistics to be added to enhance the foundation provided in the exposure;
- the use of equity gross wealth factors, suggesting they be replaced using average methodology;
- the calibration and whether the model is fit for purpose when measured against the criteria in ASOP 56;[22]
- the lack of disclosure and documentation of the mathematical specification in standard equation format of the entire model to be calibrated and evaluated, to aid in the development of targeting criteria and evaluation and with the linkages of treasury, corporate and equity models;
- the lack of clarity as to how the targeting criteria and evaluation statistics will work together to develop acceptable scenario calibrations; and
- the fact that LATF has not yet determined a timeline for deployment of GOES.

[22] Actuarial Standard of Practice 56, Modeling

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Risk-based capital

Residual tranches

Action. The RBC IRE Working Group exposed a report on residual tranche risk analysis prepared by Oliver Wyman. Comments were due April 8, 2024.

Interested parties presented the report prepared by Oliver Wyman on the residual tranche risk analysis. In 2023, the RBC IRE Working Group indicated they would consider an alternative interim charge for this asset class if information was available to support that alternative. This report was intended to provide a third-party data-driven study on structured security residual tranches. The highlights of the report included that:

- the study was performed with a variety of stress scenarios and compared residuals to other asset classes;
- the report looked at the three most commonly held asset-backed securities (ABS), CLOs, auto loans and student-loans;
- based on the stress scenarios performed, residuals performed better than common stock, especially in times of market volatility. Common stock currently has a 30% RBC charge; and
- a 30% charge for this asset class would be considered reasonably conservative.

Interested parties requested that the Working Group grant a one-year delay in the implementation of the 45% factor effective for 2024 reporting. They suggested that although this is an interim factor, it will be used in the long-term for residual ABS classes because it may take some time to develop a factor based on modeling work being done by the American Academy of Actuaries for the long-term solution.

Regulators asked how the asset classes used in the Oliver Wyman report compared to those held by insurers. Interested parties presenting the report acknowledged that they did not have the data indicating which residual tranche instruments are currently held by insurers. Some regulators expressed doubt that a charge for residual tranches of less than 45% would be appropriate. They encouraged interested parties to focus on practical ideas that provide guidance for what additional work might be done to get to a final determination of the interim charge for this asset class.

Residual charge – Property and casualty

Action. The Capital Adequacy Task Force exposed a proposal to the property and casualty and health RBC schedules and instructions to conform the RBC structure changes and charge for residuals tranches to 45%, to align with the Life and Fraternal RBC schedule and instructions. Comments were due April 15, 2024.

Regulators considered if the exposure should be to conform only the structure changes to the Life schedule and instructions and to leave the RBC charge at the current 20%. However, they determined that to ensure consistency between Life, Property and Casualty, and Health RBC schedules and instructions that the exposure should be for both the structure changes and the RBC charge.

Repurchase agreements

Action. The Life RBC Working Group reexposed proposed revisions to make the RBC charge consistent between repurchase agreements and securities lending programs. Comments were due April 15, 2024.

The proposed revisions would reduce the charge for repurchase agreements from 1.26% to 0.2% for programs that meet 'conforming program criteria' through the general interrogatories and identify a reinvestment pool funded by conforming repurchase programs. This revision would align the capital charges and disclosure requirements between conforming securities lending programs and conforming repurchase agreement programs.

The Life RBC Working Group received comments from SAPWG on the original exposure that asked the Life RBC Working Group to defer action until SAPWG had time to assess differences identified in statutory accounting and reporting between repurchase agreement and securities lending programs, as discussed above.

Interested parties requested that a change be made to the proposal to state that insurers must attest that they identified a pool of dedicated reinvested assets to support the repurchase liability. The Life RBC Working Group decided to reexpose rather than defer the proposal at this time to receive further comments.

Climate scenario analysis

Action. The P&CRBC Working Group exposed a proposal for disclosure of climate condition catastrophe exposure. Comments were due April 8, 2024.

This proposal originated from the Solvency Workstream of the Climate and Resilience Task Force, with the goal to collect the effect of climate related risks on the modeled losses for hurricane and wildfire. The intent of the disclosure is for regulators to have this information when discussing with insurers that may have a greater degree of risk for these perils. The regulators stated that they do not intend to determine a new risk charge.

Interested parties expressed concern with the proposal including that:

- this is not the approach used by industry to evaluate risk;
- it does not take into consideration reinsurance programs;
- it is not clear what regulators would consider problematic risk levels; and
- a cost benefit analysis should be performed.

5 Valuation of Securities Task Force

NAIC designation definition

VOSTF discussed comments on a previously exposed amendment to the PPM of the NAIC Investment Analysis Office to update the definition of an NAIC designation.

Interested parties supported the goal of clarifying and consolidating the definition for NAIC designation. However, their comments also included requests for the VOSTF to:

- remove references in the regulatory objective to other non-payment risk and reference contract terms of the debt instrument;
- reconsider the need to include non-payment risk given the new principles-based bond definition as adopted by SAPWG;
- remove risks from the NAIC designations that are already captured in risk-based capital factors;
- clarify the use and relevance of non-payment risk;
- clarify VOSTF's role in assessing the ability of insurer to pay claims; and
- clarify if the regulatory assumption that a fixed-income security called debt requires scheduled payments of interest and repayment of principal on a date certain is still a relevant objective;

VOSTF responses included statements that:

- other non-payment risks should remain as part of the definition because the ability to reflect investment risk, other than by the agreed upon contractual terms alone, has been a fundamental component of the definition of an NAIC designation;
- the SVO assigns NAIC designations to investments that may not meet the revised bond definition and needs to consider the risk of contractual terms for those investments even if they are reported on Schedule D or Schedule BA;
- any duplicative risk reporting will be addressed through active collaboration between VOSTF, RBC IRE and SAPWG;
- it is not practical or possible to define every situation involving other non-payment risk because it originates as a result of the contract between the issuer and insurer, e.g. non-payment risk may be present if the insurer agrees to contractual terms in which the issuer is given

some measure of financial flexibility to not make payments that would otherwise be assumed to be scheduled or the insurer takes on participatory risk;

- it has a role in assessing risk associated with an insurer-owned security to the extent that the security may have an effect on the financial solvency of that insurer; and
- the NAIC designation does not determine if an investment is reported as a bond, and the characteristics of a fixed-income security do not preclude a paid-in-kind feature, which may indicate additional risk, therefore it should not be ignored when assigning an NAIC designation.

Next step. VOSTF directed the NAIC staff to continue to work with interested parties on a revised definition. The final proposal is expected before the NAIC summer meeting.

SVO discretion in determination of NAIC designations

VOSTF discussed comments about a previously exposed amendment to the PPM of the NAIC Investment Analysis Office authorizing the procedures for the SVO's discretion over NAIC designations assigned through the FE process.

VOSTF responded to interested parties' comments submitted before the meeting. Those interested parties' comments included:

- a request for full transparency by SVO publishing its analysis, methodology, rationale, and the rating agency rating in question;
- a recommendation for a significant increase in the scope of notification, dissemination of material and involvement of regulators in each procedural step;
- a request for public disclosure of any recurring patterns of concern;
- a request to understand how the SVO will be able to review thousands of FE filings on a fair and impartial basis;
- an expressed concern over the SVO's role as a regulator and market participant in assigning NAIC designations which are the functional equivalent of ratings;
- a request to be present at the VOSTF sub-group meeting when the SVO senior credit committee presents their concerns and have an independent third-party adjudicate the decision of the committee;
- a request to include an option to receive an additional credit rating provider rating that would go through the existing FE process; and
- a request for publication of a summary of ratings discretion at each national meeting.

VOSTF responses to those comments included:

- assurance that the insurer that owns the security for which the rating is being reviewed will have full transparency into the SVO analysis and rationale with SVO providing specific information about the issuer is confidential;
- reiteration that the SVO relies on methodologies of other entities when it performs its review and applies a methodology or combination of methodologies that it believes will produce a reasonable assessment of investment risk and is not acting as credit rating provider itself;
- a statement that the SVO will publish an anonymized summary of the analytical issue or concern while maintaining the confidentiality of the issuer and rating agency;
- clarification that regulators retain all oversight and authority and there is an explicit step for regulatory approval, including involvement of the domiciliary regulator;
- clarification that the objective of this proposal is not to address concerns with an asset class or broader investment theme, rather to address issues with individual securities and that the SVO has no intention of reviewing every security that uses a rating agency rating in the assignment of NAIC designation;
- a statement that NAIC designations and other analytical products of the SVO are produced solely for the benefit of NAIC members in their capacity as state insurance department officials;
- clarification that an appeal process would allow an insurer to present its position along with supporting information to the SVO and VOSTF sub-group;
- a statement that the SVO would welcome more ratings in the FE process and believes that there should probably be a minimum number of ratings required to be eligible for FE to ensure there is a broad assessment of risk, however requiring multiple ratings is beyond the scope of this proposal; and
- a recommendation that the SVO maintain and provide an anonymized summary of rating discretion action at each Spring National Meeting.

At the meeting, interested parties stated that there has been significant progress made in this proposal but reiterated some of the previously stated concerns and provided additional recommendations to improve the process.

Next step. VOSTF directed the NAIC staff to continue to work with interested parties on the revised proposal. The final proposal is expected before the NAIC Summer meeting.

6 Other developments

Framework for regulation of insurer investments

Action. Before the Spring meeting, the Financial Condition Committee exposed a revised framework for regulation of insurer investments and related recommended work plan. Comments were due April 1, 2024.

The exposed framework included a few clarifications from the version exposed at the Summer 2023 meeting and added discussion about its goal and the goals of proposed enhancements as well as indicated that a workplan will be used to further consider enhancements in more detail.

The workplan will be used to guide the implementation of the investment framework. It outlined core principles and included seven action items of:

- updating the exposed framework based on comment and further discussion, as the drafting group anticipates the framework will be the ongoing foundation of principles for investment oversight and less of an action plan as it exists today;
- seeking approval from the Executive Committee to hire an independent consultant to provide recommendations for a due diligence framework for credit rating providers;
- ensuring implementation of the framework in parallel and without interfering with work of VOSTF and RBC IRE;
- beginning an assessment of a conceptual centralized investment expertise, and while it is expected to overlap with the existing organizations, the plan is to be deliberate when referring to a conceptual outcome;
- recommending appointment of an investment-focused working group to support the Financial Condition Committee, the Financial Analysis Working group, the Valuation Analysis Working Group, and other working groups and to define the potential charges for this working group;
- developing and implementing of best practices for enhanced coordination between the Financial Condition Committee's workstreams; and
- continuing to review appropriate incorporation of action items related to RBC recommendations.

Background. After the Summer meeting, the Committee received initial interested parties' comments on that exposure. Interested parties' comments included:

- overall support for the holistic framework, including the work plan;

- the need for continued coordination between the various NAIC groups that are working on investment related matters, to ensure there is an understanding of broad impact at the holistic level;
- a request to introduce a cost-benefit analysis into the process, similar to the one used by FASB, in order to give perspective into the work being conducted;
- support for using credit risk providers, because credit agencies should continue to be the primary arbiters of credit risk with regulators performing important oversight and analytical roles;
- questions about how the framework would determine which rating agencies the task force can rely on and whether there should be a more analytical way of making that determination; and
- the support for the formation of the new investment-focused working group to support the other working groups, that would include financial analysis working group and other key members.

One commenter requested that the framework focus on the goal of ‘equal capital for equal risk’ versus the current framework’s statement of ‘equal capital for equal tail risk’ due to the lack of definition of tail risk. However, another commenter said that focus on tail risk is fundamental, and that proper modelling of tail risk will substantially enhance the current approach.

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