NAIC Summer 2024 Meeting

Issues & Trends

Latest actions include exposure of accounting and actuarial reinsurance guidance and exposure of new guidance for derivative instruments.

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Contents

1

Meeting highlights

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

- SSAP Nos. 25 and 63 to address transfers of assets when modifying intercompany pooling arrangements and the nullification of INT 03-02.
- The Purposes and Procedures Manual (PPM) of the NAIC Investment Analysis Office to authorize the procedures for the Securities Valuation Office's (SVO's) discretion over NAIC designations assigned through the Filing Exempt (FE) process.

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

- SSAP No. 56 to update measurement guidance and specify the process for the transfer of assets in exchange for cash between the general account and book value separate accounts.
- SSAP No. 61 to add guidance from SSAP No. 62, Exhibit A Q&A, question 10, requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features and to add a reference to Appendix A-791 paragraph 6.
- SSAP Nos. 86 and 26 to establish guidance that requires separate accounting and reporting of derivatives that are included in debt security structures.
- A Question and Answer (Q&A) Implementation Guide for the principles-based bond definition.
- A new part to the reinsurance 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.
- SSAP Nos. 48, 93 and 94, to make accounting guidance consistent with journal entry examples, and an issue paper that documents discussions and decisions made about revisions to SSAP Nos. 93 and 94 related to the new market tax credits.
- A proposal to develop new statutory accounting guidance for interest-rate hedging derivatives that do not qualify as effective hedges under SSAP No. 86 but are used for asset-liability management (ALM).
- A strawman for the actuarial guideline for reinsurance asset adequacy testing.

Accounting highlights >>	
Disclosures for borrowings	The Statutory Accounting Principles Working Group (SAPWG) adopted revisions to SSAP Nos.15 and 86 to adopt, with modification, certain disclosures for unsecured commitments, lines of credit, repurchase and reverse repurchase transactions, secured borrowings and derivatives from ASU 2023-06.[1]
Common control arrangements	SAPWG adopted revisions to SSAP Nos. 19 and 73, to adopt with modification, the leasehold improvement guidance from ASU 2023-01.[2]
Accounting for and disclosure of crypto assets	SAPWG adopted 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.[3] The adoption nullified INT 21-01.
Principles-based bond definition – debt securities issued by funds	SAPWG reexposed revisions to SSAP No. 26 to eliminate the provision requiring SEC registration for funds, and would instead permit debt securities issued by funds representing operating entities to be classified as issuer credit obligations.[4] The revisions would be effective January 1, 2025. Comments were due September 6, 2024.
Consistency revisions for residuals	SAPWG adopted revisions to SSAP Nos. 26, 30, 32, 43 and 48 to refer to SSAP No. 21 for the formal definition, accounting and reporting guidance.[5] The revision will be effective January 1, 2025.
Off balance sheet and credit risk disclosures	SAPWG discussed comments on previous exposed revisions to SSAP No. 27 to remove the reference to FAS 105 and specifically list financial

1 SSAP No. 15, Debt and Holding Company Obligations; SSAP No. 86, Derivatives; ASU 2026-06, Disclosure improvements; codification amendments in response to the SEC's disclosure update and simplification initiative.

2 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

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

4 SSAP No. 26, Bonds

5 SSAP No. 21, Other Admitted Assets; SSAP No. 30, Unaffiliated Common Stock; SSAP No. 32, Preferred Stock; SSAP No. 43, Asset Backed Securities; SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies

Accounting highlights >>	
	instruments excluded from the SSAP and Annual Statement Instructions.[6]
Book value separate accounts	SAPWG exposed revisions to SSAP No. 56 to update measurement guidance and specify the process for the transfer of assets in exchange for cash between the general account and book value separate accounts.[7] Comments are due November 8, 2024.
Principles-based bond definition	SAPWG adopted the issue paper about the principles-based bond project and exposed a Q&A Implementation Guide that addresses issues from interested parties. Comments are due September 27, 2024.
Risk transfer analysis on reinsurance contracts with interrelated features	SAPWG reexposed revisions to SSAP No. 61 to add guidance from SSAP No. 62, Exhibit A Q&A, question 10, requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features and to add a reference to Appendix A-791.[8] The reexposure requests input on specific items related to concerns raised in comment letters from the initial exposure. Comments are due September 27, 2024.
Reporting of funds withheld and modified coinsurance assets	SAWPG exposed a recommendation to add a new part to the reinsurance 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 December 16, 2024.
Intercompany pooling	SAPWG adopted revisions to SSAP Nos. 63 and 25 to address transfers of assets when modifying intercompany pooling arrangements. INT 03-02 was nullified upon adoption of these revisions.[9]

6 SSAP No. 27, Off Balance Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk; FAS 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet

7 SSAP No. 56, Separate Accounts

8 SSAP No. 61, Life, Deposit-Type and Accident and Health Reinsurance; SSAP No. 62, Property and Casualty Reinsurance; Appendix A-791, Life and Health Reinsurance Agreements

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

Accounting highlights >>	
New market tax credits	SAPWG exposed (1) revisions to SSAP Nos. 48, 93 and 94 to make accounting guidance consistent with journal entry examples and (2) an issue paper that documents discussions and decisions made about revisions to SSAP Nos. 93 and 94 related to the new market tax credits.[10] Comments are due November 8, 2024.
Improvements to income tax disclosures	SAWPG exposed revisions to SSAP No. 101 to remove the disclosure requirement for the cumulative amount of each type of temporary difference and to reject, ASU 2023-09.[11] Comments are due September 27, 2024.
Securities lending programs and repurchase agreements	SAPWG exposed a memo documenting current accounting and reporting for securities lending and repurchase agreements with a request to comment on specific questions. Comments are due December 16, 2024.
Derivatives hedging variable annuity guarantees	SAPWG exposed revisions to SSAP No. 108 to update the definition of a clearly defined hedging strategy (CDHS) to make it consistent with VM-01.[12] Comments are due September 27, 2024.
Derivatives used for asset-liability management	SAPWG exposed a proposal to develop new statutory accounting guidance for interest-rate hedging derivatives that do not qualify as effective hedges under SSAP No. 86 but are used for ALM. Comments are due November 8, 2024.
IMR subgroup update	SAPWG heard an update about the activities of the interest maintenance reserve (IMR) Ad Hoc group.
Collateral loan reporting	SAPWG exposed revisions to Schedule BA to expand the reporting for collateral loans. Comments are due September 27, 2024.

[10] SSAP No. 93, Investments in Tax Credit Structure; SSAP No. 94, Transferable and Non-Transferable State Tax Credits

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

[12] SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees; VM-01, Definitions for Terms in Requirements

Accounting highlights >>	
Editorial revisions	SAPWG adopted revisions to remove the 'Revised' or 'R' from the SSAP titles, which previously identified substantively revised SSAPs.
Actuarial highlights >>	
Non-variable annuities	The VM-22 Subgroup reported to the Life Actuarial Task Force (LATF) that the VM-22 field test started on July 31, 2024, and will continue through September 30, 2024.[13] The goal is to adopt VM-22 with an initial effective date of January 1, 2026, and a three-year implementation period, becoming mandatory for non-variable annuity contracts on January 1, 2029, on a prospective basis.
Asset adequacy testing	LATF exposed a strawman for an actuarial guideline for reinsurance asset adequacy testing. Comments were due September 19, 2024 on the scope section, October 3, 2024 on the aggregation section and October 11, 2024 on the remaining sections.
Non-US mortality tables	On a call before the Summer meeting, LATF adopted 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.[14]
Generator of Economic Scenarios acceptance criteria	LATF received an update about the Generator of Economic Scenarios (GOES) field test and heard a presentation from the GOES model office testing.
Negative IMR in asset adequacy testing	LATF discussed concerns about the reporting of negative IMR in the asset adequacy testing.
Actuarial guideline 53	LATF discussed observations from current year reviews of Actuarial Guideline 53 filings stating that high net yields continue to be a focus and said it will consider potential additions to guidance.[15]

[13] VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities

[14] VM-20, Requirements for Principle-Based Reserves for Life Products; VM-21, Requirements for Principle-Based Reserves for Variable Annuities

[15] AG 53, Application of the valuation manual for testing the adequacy of life insurer reserves.

Risk-based capital >>	
Residual tranches – life insurers	On a call before the Summer meeting, the Risk-Based Capital (RBC) Investment Risk Evaluation (IRE) Working Group decided to affirm, the original adoption of a 45% RBC factor for all residual tranches and interests, for life insurers, effective for 2024 reporting as an interim solution.
Residual charge – property and casualty and health insurers	Before the Summer meeting, the Capital Adequacy Task Force adopted a proposal for the property and casualty and health insurers to maintain the 20% RBC charge for residuals tranches for 2024 reporting.
Repurchase agreements	On a call before the Summer meeting, the Life RBC Working Group suspended reexposure of proposed revisions to make the RBC charge consistent between repurchase agreements and securities lending programs and deferred further action on the proposal until 2025.
New RBC working group	The Capital Adequacy Task Force exposed a request for a new working group to review non-investment related factors that affect the RBC formula. Comments were due September 13, 2024.
Climate scenario analysis	On calls before the Summer Meeting, the Financial Condition Committee adopted the climate risk stress test.
Valuation of Securities Task Force >>	
NAIC designation definition	VOSTF adopted an 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 adopted an 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.
Other developments >>	
Framework for regulation of insurer investments	The Financial Condition Committee reexposed a framework for the regulation of insurer investments and a related recommended work plan. Comments are due October 14, 2024.

2

Accounting highlights

Disclosures for borrowings

Action. SAPWG adopted revisions to SSAP Nos. 15 and 86, to adopt (with modification) certain disclosures for unsecured commitments, lines of credit, repurchase and reverse repurchase transactions, secured borrowings and derivatives from ASU 2023-06.

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

- 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 revision to SSAP No. 86 requires disclosure of accounting policy about how cash flows associated with derivative instruments are presented in the statement of cash flow.

Common control arrangements

Action. SAPWG adopted revisions to SSAP Nos. 19 and 73, to adopt (with modification) the leasehold improvement guidance from ASU 2023-01.

Revisions direct insurers 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 adopted 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 adoption nullified INT 21-01.

The revisions:

- define crypto assets as intangible digital assets based on blockchain or similar technology and verified by decentralized cryptographic systems, and do not provide enforceable rights to or claims on underlying goods, services or other assets; and
- establish that directly held crypto assets do not meet the definition of cash under SSAP No. 2 and due to their volatility and liquidity issues, are not considered available to satisfy policyholder obligations.[16]

Principles-based bond definition – debt securities issued by funds

Action. SAPWG reexposed revisions to SSAP No. 26 to eliminate the provision requiring SEC registration for funds, and instead to permit debt securities issued by funds representing operating entities to be classified as issuer credit obligations. The revisions would be effective January 1, 2025. Comments were due September 6, 2024.

The proposed revisions clarify that:

- SEC registration is a practical safe-harbor and should not be used as a proxy for other debt securities issued by funds;
- other debt securities issued by funds must be classified in accordance with the issuer's primary purpose; and
- other debt securities must be assessed as an asset-backed security regardless of the amount of debt issued if the issuer's primary purpose is raising debt capital.

Consistency revisions for residuals

Action. SAPWG adopted revisions to SSAP Nos. 26, 30, 32, 43 and 48 to refer to SSAP No. 21 for the formal definition, accounting and reporting guidance. The revisions will be effective January 1, 2025.

The revisions remove any accounting and reporting guidance about residuals from SSAPs Nos. 26, 30, 32, 43 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

SAPWG discussed comments on previous 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.

The proposal suggested amending:

[16] SSAP No. 2, Cash, Cash Equivalents, Drafts, and Short-Term Investments

- SSAP No. 27 to specifically list the financial instruments excluded from the SSAP rather than referencing FAS 105, which is out of date because it was superseded by FAS 133 before the creation of the FASB Accounting Standards Codification; and
- the Annual Statement Instructions to add an ‘Other’ derivatives category, disclosure examples and instructions for nonderivative financial instruments with off-balance sheet credit risks.

Interested parties expressed concern that the proposal would be repetitive because there are current requirements in the Annual Statement that require insurers to disclose commitments to provide future funding and guarantees of performance. They suggested evaluating the current disclosure requirements to avoid duplication of information.

SAPWG acknowledged the concerns and deferred the proposal. It directed the NAIC staff to continue work with interested parties on this proposal.

Book value separate accounts

Action. SAPWG exposed revision to SSAP No. 56 to update measurement guidance and specify the process for the transfer of assets in exchange for cash between the general account and book value separate accounts. Comments are due November 8, 2024.

The proposed revisions include three broad concepts:

- the selling account transfers the asset at fair value, with a realized gain or loss and allocation to IMR, if resulting from interest rate changes;
- the purchasing account records the asset at book value, with an adjustment to IMR for the difference between the fair value and book value; and
- the effects of IMR are offset between the general account and the book value separate account, with a zero net effect to surplus.

The proposed revisions add guidance on measurement of separate account assets stating that:

- assets supporting the following separate account contracts would be permitted to be reported as if the assets were held in the general account:
  - fund accumulation contracts with a fixed interest rate guarantee that (1) do not participate in underlying portfolio experience, and (2) are purchased under a retirement plan or plan of deferred compensation, or established or maintained by an employer; and
  - insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account such as pension risk transfer contracts and registered index-linked annuity contracts, with approval of the state insurance regulator.

- assets supporting all other separate account contracts, would be reported at fair value; and
- assets reflecting seed money from the general account would follow the guidance within SSAP No. 56 as if the assets were held in the general account.

The proposal would also add disclosures, including:

- for separate account contracts where the general account provides an inherent or ultimate guarantee, such as pension risk transfer or registered index-linked annuity contracts:
  - whether risk charges have been provided to the general account; and
  - affirm the inclusion of these separate account products within asset-liability testing.
- for all separate accounts that involve repurchase or reverse repurchase agreements, the use and policies of repurchase agreements within the separate account including:
  - fair value of securities sold or acquired;
  - cash collateral and the fair value of security collateral received or provided; and
  - recognized liability or receivable for the return of collateral.
- discussion of asset transfers that did not reflect sales for cash between the general account and separate account.

The proposal would add to the categories of separate account assets by characteristics in the Separate Account Annual Statement the identification of the assets supporting separate account contracts where the general account provides an inherent or ultimate guarantee.

Principles-based bond definition

Action. SAPWG adopted the issue paper about the principles-based bond project and exposed a Q&A Implementation Guide that addresses issues from interested parties. Comments are due September 27, 2024.

The issue paper includes edits based on interested parties' comments, which were editorial in nature, and a clarification about the use of a practical expedient. SAPWG also clarified that the determination of whether an investment qualifies as a creditor-relationship and then as an issuer credit obligation or asset-backed security requires an assessment by the insurer of the full structure at the time of acquisition as it was ultimately intended by the issuer at the time of origination.

The Q&A Implementation Guide includes information about how the guidance within the principles-based bond definition should be applied to specific investment structures or characteristics.

Risk transfer analysis on reinsurance contracts with interrelated features

Action. SAPWG reexposed revisions to SSAP No. 61 to add guidance from SSAP No. 62, Exhibit A Q&A, Question 10, requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features, and to add a reference to Appendix A-791, paragraph 6. Comments are due September 27, 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, regarding the entire agreement and the effective date of agreements.

One interested party agreed with the proposal and stated that the reinsurance agreement should include consideration of all obligations of the ceding company under the reinsurance agreement.

However, other interested parties opposed adoption, expressing concern that the exposed language could lead to broader interpretive changes by regulators, auditors and insurers than is currently intended. They stated that this could cause confusion and inconsistency in approach across the industry. Their comments also included:

- a request that the determination of whether a contract is proportional or non-proportional continue to be based on contractual terms of the reinsurance agreement and not be an automatic conclusion that all combination coinsurance and YRT arrangements are non-proportional;
- an observation that combination arrangements can be structured to meet risk transfer requirements and taking a full proportional reserve credit on the coinsured component would be considered appropriate;
- an agreement that if any individual component of a combination coinsurance and reinsurance agreement does not pass statutory risk transfer, then the aggregate transaction would not pass statutory risk transfer regardless of how it is structured;
- an agreement that transactions that inappropriately preclude any possibility of reinsurance losses being incurred as a result of excessive YRT premiums would be of concern for statutory risk transfer;
- a statement that the overall assessment should include:
  - the coinsurance business to ensure that all significant risks inherent in the reinsured business are transferred;
  - the YRT arrangement to ensure the agreement does not violate any of the conditions described in Appendix A-791, paragraphs 2b, 2c, 2d, 2h, 2i, 2j, or 2k; and

- an assertion that applying US GAAP standards when evaluating risk transfer and reserve credit for life reinsurance is not appropriate because statutory life reserves are based on prudent assumptions, and as such, the reserve credit should be established on a consistent basis.

These interested parties also stated that they did not consider these proposed revisions a clarification, rather a significant departure from currently accepted practices for evaluating risk transfer for life insurance contracts under statutory accounting. They requested further study and discussion to better understand the effect the proposed changes would have at the industry level.

SAPWG said that the proposed revisions:

- continue to allow combination contracts but preclude contract features being ignored when evaluating risk transfer;
- are consistent with:
  - guidance in SSAP No. 61 and Appendix A-791;
  - guidance in SSAP No. 62, Exhibit A Implementation Questions and Answers, Question 10, and guidance existing in US GAAP; and
  - current risk transfer requirements.

SAPWG also stated that the Valuation Manual treatment of reinsurance is similar to modelling in that the reserve is calculated before and after the effects of reinsurance.

With this exposure, SAPWG requested that comments include:

- more detail on the extent existing contracts would be impacted, including the dollar amount and the number of existing YRT combination contracts that might not meet risk transfer from the exposed revision; and
- specific language regarding the concept that interdependent contract features should be analyzed in aggregate.

Reporting of funds withheld and modified coinsurance assets

Action. SAWPG reexposed 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. The new part would require disclosure of assets held under a funds withheld arrangement with a separate identifier for modified coinsurance assets. Comments are due December 16, 2024.

Interested parties expressed concern with the proposal, including that:

- the granularity of disclosures may expose competitive information;

- it would be impracticable to provide information requested in the schedules when specifically identifiable assets are not held in a trust account; and
- these schedules would require considerable resources, which are currently constrained by the principles-based bond definition project.

SAPWG questioned the inability to identify specific assets because:

- the Life RBC formula reflects a reduction in RBC charges for modified coinsurance and funds withheld assets, which is by asset type and often by asset designation; and
- the fair value of the assets withheld is also reported in the reinsurance Schedules S and F as collateral.

With this reexposure SAPWG requested comments about how the amounts are determined for Life RBC charge reductions and collateral fair value, if assets cannot be identified.

Intercompany pooling

Action. SAPWG adopted revisions to SSAP Nos. 25 and 63 to address transfers of assets when modifying intercompany pooling arrangements. INT 03-02 was nullified upon adoption of these revisions.

Revisions to SSAP No. 25:

- add a reference to SSAP No. 63 for the 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 the transfer of assets and liabilities.

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

- use the statutory book value of assets and statutory 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 payables or receivables that result from modifications 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 statement value.

Repacks and derivative wrapper investments

Action. SAPWG exposed revisions to SSAP Nos. 86 and 26 to establish guidance that requires separate accounting and reporting of derivatives that are included in debt security structures. Comments are due September 27, 2024.

Revisions to SSAP No. 86 would require:

- debt securities that have derivative components or wrappers to be assessed to determine if they are a structured note;
- structured notes to be reported collectively as a derivative investment (as opposed to bifurcated), and measured and reported under SSAP No. 86;
- debt securities that are not structured notes, but have been combined with a derivative instrument, to be bifurcated and reported separately as a debt security and a derivative instrument;
- the classification of the bifurcated debt security as an issuer credit obligation, asset-backed security, or non-bond debt security, based on the requirements of SSAP No. 26; and
- a debt security that serves as collateral to the derivative counterparty to be classified as a restricted asset under SSAP No. 1.

SSAP No. 26 would be revised to exclude from its scope:

- debt security structures that have been combined with derivative components or wrappers; and
- debt security structures combined with a derivative, such as a credit repack that does not reflect a structured note.

The proposal does not revise SSAP No. 103 because the existing guidance is clear that a sale of a debt security that is subsequently or simultaneously reacquired as a credit repack would not meet the criterion of substantially the same.

Repacking and potentially other derivative wrapped debt security structures combine two separate items (a debt security and a derivative) into one instrument that resembles a debt security. For these structures, the derivative arrangements could be entered into separately and do not need to be entered into as a combined transaction.

Special purpose vehicle (SPV) repacking is a structure consisting of an SPV acquiring a debt security and reprofiling the cash flows by entering into a derivative transaction with a derivative counterparty. The redesigned debt instrument is then sold to an investor.

New market tax credits

Action. SAPWG exposed (1) revisions to SSAP Nos. 48, 93 and 94 to make accounting guidance consistent with the journal entry examples and (2) an issue paper that documents discussions and decisions made about revisions to SSAP Nos. 93 and 94 related to the new market tax credits. Comments are due November 8, 2024.

Revisions to SSAP No. 93 would clarify that:

- federal tax credits allocated to the insurer be reported as a:
  - reduction to federal income tax liability and federal income tax expense, if utilized in the same year allocated; or
  - a deferred tax asset (DTA) and change in DTA, if not utilized in the year allocated;
- state tax credits allocated to the insurer be reported as a:
  - reduction to the related state tax liability and state premium tax or state income tax expense, as applicable, if utilized in the same year allocated; and
  - gross of the related state tax liability in the category of other-than-invested assets, if the allocated tax credits are not utilized in the year allocated.

Revision to SSAP No. 94 would clarify that:

- federal tax credit allocated to the insurer would be reported as a DTA; and
- state tax credits allocated to the insurer would be reported gross of the related state tax liabilities in the category of other-than-invested assets.

Revisions would also clarify that the scope of SSAP No. 48 includes investments in joint ventures, partnerships and limited liability companies that allocate tax credits that are not under the scope of SSAP No. 93.

Improvements to income tax disclosures

Action. SAWPG exposed revisions to SSAP No. 101 to remove a disclosure requirement for the cumulative amount of each type of temporary difference and to reject ASU 2023-09. Comments are due September 27, 2024.

A previous exposure proposed the adoption of ASU 23-09. However, interested parties expressed concerns with the proposal, including that:

- the expanded rate reconciliation requirement for US GAAP is applicable only to public filers, and these revisions would extend the disclosures to all insurers;
- state income taxes are typically immaterial because insurers primarily pay premium taxes; therefore, additional state income tax disclosures would provide limited value and would require additional guidance for reporting;

- foreign tax information disclosures would not be as relevant as for US GAAP because:
  - foreign subsidiaries and affiliates are not consolidated for statutory financial statements;
  - Schedule Y already provides regulators with subsidiary information, including the jurisdiction such subsidiaries operate; and
  - material foreign tax amounts will primarily impact insurers with fully taxable branches in both the jurisdictions where they operate and the US, resulting in dual taxation and tax rates of at least 21%, even in low or no tax jurisdictions.

Interested parties asserted that the proposed revisions would provide limited benefits to regulators and suggested the rejection of ASU 2023-09 for statutory accounting.

Securities lending programs and repurchase agreements

Action. SAPWG exposed a memo documenting current accounting and reporting for securities lending and repurchase agreements with a request to comment on specific questions. Comments are due December 16, 2024.

The memo identifies statutory differences between securities lending and repurchase agreements as well as other items to be reviewed for potential clarification as they relate to the ‘conforming agreement’ securities. It includes:

- documentation of securities lending collateral - Schedule DL includes collateral for securities lending and not collateral for repurchase agreement collateral; and
- assessment of conforming provisions - insurers may interpret the requirement for ’acceptable collateral’ differently, with some interpreting it as including only the collateral received from the counterparty and not what the insurer currently holds due to reinvestment of the original collateral.

SAPWG suggested that:

- consistent reporting of collateral may be appropriate to ensure financial regulators receive comparable information regardless of the legal form of the agreement;
- a new general interrogatory disclosure may be needed to capture repurchase collateral from conforming programs pulling that information directly into the RBC formula;
- guidance about a ‘conforming program’ from the RBC instructions may need to be added to the Annual Statement Instructions; and
- clarification of what is conforming and nonconforming may need to be considered.

Interested parties responded to the initial exposure of this topic from the Spring meeting by:

- stating that a listing at the CUSIP level for conforming repo programs is not needed because the following disclosures about reinvested assets would provide regulators sufficient comfort in the integrity of these assets:
  - must adhere to the investment guidelines established within the conforming repurchase agreement program; and
  - must be dedicated and sufficient to meet a potential run-off of the repurchase agreement liability;
- suggesting the expansion of the Annual Statement Instructions to include guidelines for conforming securities lending and repurchase agreement programs; and
- clarifying that the limitations on acceptable collateral only apply to the collateral received by an insurer when the insurer posts securities to the counterparty.

Derivatives hedging variable annuity guarantees

Action. SAPWG exposed revisions to SSAP No. 108 to update the definition of a CDHS to make it consistent with VM-01. Comments are due September 27, 2024.

The revisions state that to qualify as CDHS, the strategy must meet the principles outlined in VM-21, be in place for at least three months and at a minimum identify:

- the specific risks being hedged;
- the hedging objectives;
- the material risks that are not being hedged;
- the financial instruments used to hedge the risks;
- the hedging strategy’s trading rules, including permitted tolerances from hedging objectives;
- the metrics, criteria and frequency for measuring effectiveness;
- the conditions under which hedging will not take place and for how long the lack of hedging can persist;
- the group or area responsible for implementing the hedging strategy, including whether internal or external;
- areas where basis, gap or assumption risk related to the hedging strategy have been identified; and
- the circumstances under which the hedging strategy will not be effective in hedging the risk.

Derivatives used for asset-liability management

Action. SAPWG exposed a proposal to develop new statutory accounting guidance for interest-rate hedging derivatives that do not qualify as effective hedges under SSAP No. 86 but are used for ALM. Comments are due November 8, 2024.

Currently, macro-hedges do not qualify as effective hedges under the requirements of SSAP No. 86. Interested parties communicated to SAPWG that macro-hedging derivatives are economically effective because they achieve the intention of the hedge. The proposed guidance for macro-hedges focuses on hedging interest-rate risk and would include:

- requirements for the interest-rate hedging derivatives, including effectiveness assessments;
- accounting for the derivatives and resulting realized gains or losses, including amortization if those gains or losses are deferred; and
- disclosure and reporting requirements.

SAPWG stated that they anticipate following the concepts of SSAP No. 108, with some deviation. For example, SSAP No. 108 does not use IMR for the reporting of deferred derivative gains and losses but the use of IMR is considered within the proposed guidance.

SAPWG requested feedback on the following key concepts:

- the development of statutory accounting guidance that would defer derivative gains and losses for structures that hedge interest rate risk with amortization over time into income;
- the determination of effectiveness that would permit the derivative program to qualify for the special accounting treatment;
- whether net deferred losses, reported as assets, would be admissible, and if so, any admissibility limitations;
- macro-limits on admitting net deferred losses and other ‘soft’ assets such as: IMR, derivative deferred net losses, and considering DTAs, electronic data processing equipment and software and goodwill, etc;
- the timeframes over which deferred items would be amortized into income; and
- the extent of application across the industry.

IMR subgroup update

SAPWG heard an update about the activities of the IMR Ad Hoc group. The subgroup’s discussions focused on IMR related to:

- derivatives that do not qualify as effective under SSAP No. 86 but are economically effective;

- asset transfers for cash between general and separate accounts; and
- reinsurance transactions.

The group anticipates further discussion on IMR from reinsurance transactions as well as an overall concept on the admissibility of a net negative IMR. SAPWG also stated that inconsistences were observed about how insurers treated the admitted negative IMR in cash flow testing.

Collateral loan reporting

Action. SAPWG exposed revisions to Schedule BA to expand the reporting for collateral loans. Comments are due September 27, 2024.

The proposed revisions would delete the existing collateral loan reporting lines and require categorization of collateral loans as unaffiliated and affiliated based on the underlying collateral supporting the loan, such as;

- mortgage loans;
- joint ventures, partners and limited liability companies;
- residual interests;
- debt securities;
- real estate; and
- all other.

The revisions also:

- propose a new category within the asset valuation reserve (AVR) reporting schedule to include collateral loans; and
- request comments on:
  - whether collateral loans backed by mortgage loans should be included in the new collateral loan category or continue to flow through the 'investments with underlying characteristics of mortgage loans' category; and
  - what additional reporting lines of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment.

Editorial revisions

Action. SAPWG adopted revisions to remove the 'Revised' or 'R' from the SSAP titles, which previously identified substantively revised SSAPs.

SAPWG stated that the 'Revised' and 'R' identifiers are no longer useful because there are several SSAPs that have had multiple substantive revisions after their initial adoption.

3

Actuarial highlights

Non-variable annuities

The VM-22 subgroup reported to LATF that the VM-22 field test started on July 31, 2024, and will continue through September 30, 2024. The objective of the field test is to measure the effect on actual business of the proposed VM-22 reserve and capital framework relative to the current standards to ensure the framework is working as intended. Participants in the field test included more than one-third of non-variable annuity writers, with representation across all major product categories. The subgroup will use results from the field test to make key decisions on:

- the reinvestment strategy guardrail;
- the threshold for the stochastic exclusion ratio test; and
- modifications to assumptions currently set for the Standard Projection Amount.

The VM-22 subgroup also reported that it discussed the methodology for longevity reinsurance, for which the Subgroup expressed initial preference for the ‘k-factor’ approach versus an alternative approach proposed by interested parties that would involve a treaty-level floor of zero and no k-factor.

Next steps: The subgroup plans to hold calls to finalize their remaining decisions on the framework, before submitting recommendations to LATF. The goal is to adopt VM-22 with an initial effective date of January 1, 2026, and a three-year implementation period, becoming mandatory for non-variable annuity contracts on January 1, 2029, on a prospective basis.

Asset adequacy testing

Action. LATF exposed a strawman for an actuarial guideline for reinsurance asset adequacy testing (Guideline). Comments were due September 19, 2024 on the scope section, October 3, 2024 on the aggregation section, and October 11, 2024 on the remaining sections.

The exposure also requests comments on topics including:

- narrowing the scope of the Guideline to include only treaties of certain size or broadening it and then establishing objective and subjective criteria for cash flow testing (CFT), less rigorous analysis, or an exemption;
- exempting insurers from the requirement of CFT for large treaties if certain safeguards exists or require at least a one-time CFT for all instances;

- allowing attribution analysis as an alternative to CFT in moderate risk cases or only allowing it as a supplement to other analysis;
- using gross premium valuation, modeling liabilities but not assets except through a discount rate, as a tool in the analysis even though the focus of the Guideline is on asset-intensive business;
- using another metric besides 'Primary Security' that can provide comfort that appropriately stable assets are supporting reserves;
- analyzing risks associated with actual assets supporting reserves if the insurer is not reliant on aggressive asset returns to support reserves; and
- applying requirements of the Guideline to reinsurance treaties established only after a certain date.

The Guideline is proposed to be effective for asset adequacy analysis of reserves reported in the December 31, 2025 Annual Statement and thereafter.

Interested parties expressed their concern that the proposed Guideline may potentially be in conflict with the Covered Agreement if it will require additional collateral requirements and may also pose a risk to the reciprocal jurisdiction program.[17]

Background. The goal of the Guideline is for regulators to understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, the regulators identified a risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of the reserves, allowing the release of reserves while not retaining sufficient assets to cover claims under a moderately adverse scenario. As such, the Guideline proposes enhancements to reserve adequacy requirements for life insurers by requiring that asset adequacy testing use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.

On calls before the Spring meeting, LATF discussed multiple comments on the concepts for asset adequacy testing for the reinsurance proposal. Some interested parties urged regulators to find the right scope and focus on the riskiest treaties and ensure that reinsurance remains available as a risk mitigating tool. However, others expressed support of the additional requirements to protect consumers and ensure that assets supporting the liabilities would be sufficient under moderately adverse conditions. The Academy stated that their group was somewhat divided on the approach to move forward with a subset of the group believing that a disclosure-based approach would not require a prescribed asset adequacy method, while

[17] Covered agreement is an agreement signed between US and EU as well as the US and UK that requires states to eliminate reinsurance collateral within five years or risk preemption. In exchange, the EU will not impose local presence requirements on US firms operating in the EU, and effectively must defer to a US group capital calculation for US entities of EU-based firms.

others being of the position that the asset adequacy testing approach could work if the scope was focused on high-risk reinsurance treaties.

Next Step. LATF will have calls to discuss topics related to the exposed questions during the exposure period.

Non-US mortality tables

Action. On a call before the Summer meeting, LATF adopted 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.

These revisions facilitate the inclusion of non-US mortality tables for use on non-US lives in the Valuation Manual and align the mortality tables used to value reserves using PBR with the population being insured.

Generator of Economic Scenarios (GOES)

LATF received an update about the GOES field test and heard a presentation from the GOES model office testing. The field test includes five required runs using new GOES field test scenario sets that test the latest calibration of GOES as of 2023 year-end, other alternative Treasury starting conditions and also include an equity market drop sensitivity. Confidential participant-to-regulator discussions are being held. The current model office results showed more volatility than the Academy scenario generator. GOES is not expected to be required before 2026; however, early adoption may be possible.

Negative IMR in asset adequacy testing

LATF discussed concerns about the reporting of negative IMR in the asset adequacy testing. The regulators stated that they've observed instances where negative IMR was admitted but:

- zero IMR was reported in the Actuarial Opinion;
- IMR was reported as a positive amount in the Actuarial Opinion; and
- the amount of IMR reflected in the Actuarial Opinion was substantially smaller.

These observations raised concerns that negative IMR was not being appropriately adjusted and there could be inappropriate amounts used in cash flow testing and PBR. Last year, LATF adopted guidance stating that negative IMR that is not admitted does not need to be allocated for PBR and asset adequacy testing, whereas admitted IMR would continue to be reflected.

Next step. LATF will draft a proposal to clarify that if negative IMR is being admitted, then it should be removed from the starting assets used in cash flow testing and PBR.

Actuarial guideline 53

LATF discussed observations from current year reviews of Actuarial Guideline 53 filings stating that high net yields continue to be a focus. However, a wider variety of issues are being reviewed compared to last year, including reinsurance collectability risk. Regulators looked at:

- projected allocations of equities or equity-like Instruments, stating that some insurers showed an increasing allocation over time, but most did not;
- the rating of collateral loan obligations (CLO) tranches that insurers invest in, stating that:
  - most insurer purchase CLOs across a mix of tranche ratings; and
  - although many insurers have CLO tranches that are below investment grade, the exposure to those tranches tends to be small.
- investments that have payment-in-kind features, stating that most insurers do not have investments with that feature and if they do, it’s often a small part of the portfolio.

LATF stated that it will consider the following potential additions to the guidance document:

- an explanation of any projected allocation deviations from the asset summary information;
- high-level explanation of the process to align AG 53 assumptions with VM-30 assumptions; and
- emphasis that simplifications should not lead to more favorable results, for example, assuming reinvestment in all public, non-callable corporates should not include excessively high assumed net yields.

4

Risk-based capital

Residual tranches – life insurers

Action. On a call before the Summer meeting, the RBC IRE Working Group decided to affirm the original adoption of 45% RBC factor for all residual tranches and interests for life insurers effective for 2024 reporting as an interim solution.

The RBC IRE considered if a factor lower than 45% would be appropriate for at least some residual tranches based on a previously exposed report from Oliver Wyman. Some interested parties stated that the 45% charge was overly conservative and expressed concern that its application to all residual tranches and interests would reduce access to capital, specifically for the middle-market sector. They stated that some residuals, such as commercial real estate collateralized loan obligations and commercial mortgage-backed securities, qualify for a lower RBC factor. Some regulators agreed with this view.

However, other interested parties supported the previously adopted 45% RBC factor for all residuals. Regulators also stated that a bifurcated approach to assessing capital charges for residual tranches and interests may incentivize restructuring of securitization structures and reshuffling of assets, rendering bifurcation based on structures and collateral type meaningless.

Residual charge – property and casualty and health insurers

Action. Before the Summer meeting, the Capital Adequacy Task Force adopted a proposal for the property and casualty and health insurers to maintain the 20% RBC charge for residuals tranches for 2024 reporting.

The Task Force stated the 20% charge should be retained until further review of the factors for property and casualty, as well as health, insurers is completed.

Repurchase agreements

On a call before the Summer meeting, the Life RBC Working Group suspended its reexposure of proposed revisions to make the RBC charge consistent between repurchase agreements and securities lending programs and deferred further action of the proposal until 2025.

The proposed revisions would have reduced the RBC 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 deferred action until SAPWG completes its assessment of differences identified in statutory accounting and reporting between repurchase agreement and securities lending programs, as discussed above.

New RBC working group

Action. The Capital Adequacy Task Force exposed a request for a new working group to review non-investment related factors that affect the RBC formula. Comments were due September 13, 2024.

The new working group, the Risk-Based Capital Risk Research Working Group, would be charged with performing a comprehensive review of the RBC framework for all business types, including:

- identifying and acknowledging uses that extend beyond the purpose of the RBC Model Act;
- assessing the impact and effectiveness of potential changes that would contribute to the identification of weakly capitalized insurers; and
- documenting the modifications made over time to the formulas, including analysis of the costs of:
  - study and development;
  - implementation;
  - assimilation; and
  - verification.

Climate scenario analysis

Action. On calls before the Summer Meeting, the Financial Condition Committee adopted the climate risk stress test.

Insurers are required to calculate the RCAT charge by performing catastrophe model runs on their current books of business with:

- a 50% frequency increase for major hurricanes, Category 3 and higher, but only for wind losses; and
- a 50% increased frequency for all wildfire events.

The original proposal was initiated 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 hurricanes and wildfires. The intent of the disclosures included in the proposal was for regulators to have this information when discussing with insurers that may have a greater degree of risk for these perils. Interested parties expressed significant concern with the proposal and requested regulators to consider a climate stress test instead. Interested parties stated that this modified proposal would achieve the same goal as the previously exposed proposal, but it would produce more comparable results between insurers and would be less expensive in both money and staff resources.

5 Valuation of Securities Task Force

NAIC designation definition

Action. VOSTF adopted an amendment to the PPM of the NAIC Investment Analysis Office to update the definition of an NAIC designation.

The amendment clarifies and consolidates the definition for an NAIC designation. The definition focuses on the likelihood that an insurer will receive full and timely principal and expected interest. The definition allows the SVO to account for a variety of risks that may be present in both traditional and complex bonds, and it reflects a departure from the term 'credit risk' which focuses on the ability of an insurer to make payments under contractual terms. Volatility, interest rate, prepayment, extension and liquidity risks are excluded from the definition for the purposes of assigning an NAIC designation.

The amendment removes reference to the current stated regulatory assumption that debt instruments pay scheduled interest and principal at maturity. It also removes application of Subscript S for other non-payment risks and the concept of 'other non-payment risks'.

SVO discretion in determination of NAIC designations

Action. VOSTF adopted an 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.

The process of challenging a credit rating provider (CRP) rating includes the following:

- SVO staff or a regulator identifies a filing exempt security with an NAIC designation determined by a rating that appears to be an unreasonable assessment of investment risk;
- SVO credit committee determines if a rating appears to be an unreasonable assessment of investment risk, places the security 'Under Review' and requests information from an insurer;
- SVO performs a full analysis of a security upon receiving all necessary documentation through an information request;
- SVO credit committee determines whether the FE NAIC designation is three or more notches different than the SVO credit committee's opinion and whether the SVO should proceed in requesting removal of the CRP rating from the filing exempt process;

- if the SVO credit committee's decision is to remove the CRP rating, it will meet to discuss the security with the subgroup of the VOSTF, the insurer and potentially the insurer's domiciliary regulator, where the insurer will have the opportunity to present its analysis;
- a VOSTF subgroup will vote on whether it agrees with the SVO credit committee's recommendation to remove the CRP rating;
- an alternative CRP rating may be requested by an insurer during any point in the process;
- an anonymized summary of each unique issue or situation will be published on the SVO webpage or another insurer accessible location; and
- SVO will identify through SVO Administrative Symbols when a CRP rating for a security has been removed from the FE process.

Interested parties stated that although the amendment could be improved, the proposal strikes a healthy balance between the needs of the regulator and transparency to the insurers.

VOSTF stated a lookback analysis will be performed once implemented to confirm that it is operating as intended.

6 Other developments

Framework for regulation of insurer investments

Action. The Financial Condition Committee reexposed a framework for the regulation of insurer investments and a related recommended work plan. Comments are due October 14, 2024.

The exposed framework included the following revisions in response to comments received from interested parties:

- clarification that the regulators will continue to review the work plan for appropriate incorporation of RBC recommendations into the final framework, although there are no action items at this time;
- addition of six core principles directly into the Framework that are expected to remain after implementation of the work; and
- clarification that RBC factors should consider market impacts and consistency across asset classes when determining when and how to implement such changes.

Interested parties' comments were generally in support of the Framework and provided suggestions and observations about how certain steps of the Framework can be implemented.

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