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2025 Spring SAPWG Calls

Issues & Trends

Latest actions include adoption of restricted asset disclosures for modified coinsurance and funds withheld assets and discussion about a proposal to evaluate reinsurance contracts with interdependent features.

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Meeting highlights

During its calls in April and May 2025, the Statutory Accounting Principles Working Group (SAPWG) **adopted** revisions to the following guidance.

- SSAP No. 1 and the Annual Statement, to expand disclosures for restricted assets to identify whether the modified coinsurance (Modco) and funds withheld assets are related to or affiliated with the reinsurer.

SAPWG **exposed** revisions to the following guidance.

- SSAP No. 37 to add qualifying investment trusts that hold residential mortgage loans to the scope of SSAP No. 37 for reporting on Schedule B, Mortgage Loans and disclosures in the financial statements.

SAPWG **discussed** revisions to the following guidance.

- 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.

Accounting highlights >>	
Reinsurer affiliated assets	SAPWG adopted revisions to SSAP No. 1 and the Annual Statement to expand disclosures in the quarterly and annual financial statements for restricted assets to identify whether the Modco and funds withheld assets are related to or affiliated with the reinsurer.[1] The revisions are effective for 2025 year-end and beginning first quarter 2026 for quarterly reporting.
Residential mortgage loans held in statutory trusts	SAWPG exposed a proposal to add qualifying investment trusts that hold residential mortgage loans to the scope of SSAP No. 37 for reporting on Schedule B, Mortgage Loans and disclosures in the financial statements.[2] Comments are due June 23, 2025.
Risk transfer analysis for reinsurance contracts with interrelated features	On a joint call, SAPWG and the Life Actuarial Task Force (LATF) discussed a proposal to revise 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. The proposal also adds a reference to Appendix A-791, paragraph 6.[3]
Medicare Part D Prescription Payment Plan	SAPWG adopted revisions to SSAP No. 84 to add disclosures for the Medicare Part D Prescription Payment Program (MPPP).[4] The revisions are effective year-end 2025.
Reporting of funds withheld and modified coinsurance assets	SAWPG adopted a revision to include information on Modco and funds withheld assets in Schedule S, Part 8 of the Life and Fraternal Annual Statement. The revised Schedule S includes aggregated data that closely aligns with asset valuation reserve (AVR) reporting.

[1] SSAP No. 1, Accounting Policies, Risks & Uncertainties and Other Disclosures

[2] SSAP No. 37, Mortgage Loans

[3] 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

[4] SSAP No. 84, Health Care and Government Insured Plans Receivables

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Accounting highlights

Reinsurer affiliated assets

Action. SAPWG adopted revisions to SSAP No. 1 and the Annual Statement to expand disclosures in the quarterly and annual financial statements for restricted assets to identify whether the Modco and funds withheld assets are related to or affiliated with the reinsurer. The revisions are effective for 2025 year-end and beginning first quarter 2026 for quarterly reporting.

The revisions:

- expand the restricted asset disclosure in the Annual Statement to identify the amount of Modco and funds withheld assets where the assets are either a related party or affiliated investment to the reinsurer; and
- direct insurers to use existing related party investment codes to identify whether investments are related party investments.

Interested parties expressed concerns about the proposal stating that the disclosure:

- may be misleading because it implies that reinsurer related party investments are inherently riskier than nonrelated party investments and that this risk is borne by the cedant; and
- would set an unusual precedent, requiring a cedant to report on related party transactions of an unrelated entity.

They also stated that preparing this disclosure would pose operational challenges, including that:

- it is unlikely that such information is currently captured within a cedant's investment accounting system;
- a cedant is unlikely to have full knowledge of a reinsurer's affiliate relationships;
- the disclosure would require reinsurers that may not prepare statutory financial statements to apply the related party definition as required by statutory accounting to their investment portfolios; and
- the reinsurer may not have a contractual obligation within the reinsurance agreement to provide such information to the cedant.

As a result, interested parties recommended that the disclosure be limited to:

- annual reporting to reduce the operational burden; and

- investments requiring judgment in valuation (e.g., Level 3 assets as classified in the fair value hierarchy in SSAP No.100).[5]

SAPWG considered interested parties' request to limit the disclosures. One regulator conveyed their understanding of the interested party concerns; however, another stated that there is a general sense that the cedent should be aware if the assets under these arrangements are related to or are affiliated with the reinsurer. SAPWG also reiterated that these revisions are in response to a referral from the Financial Analysis Working Group that requested enhanced disclosures. The adopted revisions did not include suggestions from interested parties.

Residential mortgage loans held in statutory trusts

Action: SAWPG exposed a proposal to add qualifying investment trusts that hold residential mortgage loans to the scope of SSAP No. 37 for reporting on Schedule B, Mortgage Loans and disclosures in the financial statements. Comments are due June 23, 2025.

The proposal is specific to trusts that hold only residential mortgage loans and aims to address a lack of transparency when multiple types of mortgages are held in the same trust. Proposed revisions:

- expand the scope of SSAP No. 37 to include mortgage loans acquired through a qualifying investment in a statutory trust;
- provide characteristics for investment in a statutory trust to qualify as a mortgage loan; and
- add disclosures for mortgage loans acquired through a qualifying investment in a statutory trust, including:
  - a description of the statutory trust, with specific requirements, such as whether the trust holds subprime mortgages, and the state in which the trust is qualified to do business;
  - any material litigation and any state or federal regulatory review or action concerning the statutory trusts;
  - financing transactions that are secured, directly or indirectly, by statutory trust assets; and
  - total residential mortgages held in qualifying statutory trusts, disaggregated by loan standing – in good standing, restructured, overdue interest over 90 days not in the process of foreclosure, and in the process of foreclosure.

The exposure also:

- proposes separate reporting of individual mortgage loans on Schedule B for residential mortgages held in trust, consistent with the existing Annual Statement instructions for Schedule B;

[5] SSAP No. 100, Fair Value

- requests feedback from the regulators to determine if individual loan reporting is the preferred reporting method or if an aggregated reporting method should be explored; and
- requests information about how foreclosed assets would be reported when held in the trust and asks for comments about whether additional columns should be added to Schedule B for mortgages held in qualifying statutory trust.

Background: The increased use of Delaware Statutory Trusts (DSTs) for holding residential mortgage loans, due to their structural and tax advantages for insurance companies, has highlighted the need to establish accounting and reporting guidance for these trusts. DSTs are distinct from common-law trusts because they are established under Delaware statutory trust law, which allows significant flexibility in how they are structured.

Risk transfer analysis for reinsurance contracts with interrelated features

On a joint call, SAPWG and LATF discussed a proposal to revise 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, The proposal also adds a reference to Appendix A-791, paragraph 6.

In their presentation, interested parties discussed risk transfer considerations relating to combination coinsurance and yearly renewable term (YRT) contracts, highlighting the importance of compliant agreements in protecting ceded surplus, including illustrative examples to demonstrate the effect of compliant and non-compliant agreements on the surplus of the cedent. They continued to assert that for risk transfer, coinsurance and YRT components should be evaluated both separately and, in the aggregate, to ensure that the overall agreement meets the statutory requirements. In addition, they:

- expressed concerns about the proposed revision;
- focused on the concept that statutory risk transfer is based on the principle that there will not be deprivation of surplus;
- stated that:
  - surplus is affected by net gain from operations, which is impacted by reinsurance, and surplus is deprived by reinsurance when payments are made from surplus rather than the net gains of ceded business; and
  - entering into a combination coinsurance and YRT reinsurance agreement does not deprive the cedent of surplus provided the YRT premiums are not greater than valuation mortality;
- asserted that to satisfy risk transfer requirements for pre-principles-based reserving business, the cedent should demonstrate there is no deprivation of surplus; and

- proposed one way of demonstrating no deprivation of surplus is that the cedent's net gain from operation after reinsurance is positive.

Regulators stated that their main concern is that combination coinsurance and YRT arrangements that are (1) without the ability to independently recapture the YRT coverage, (2) include an aggregate experience refund and (3) have a high YRT premium, may allow financing of potential coinsurance losses. These arrangements could result in nonproportional coverage that transfers tail risk but provides substantial surplus relief. They observed that in the past some insurers presented a bifurcated risk transfer analysis, partially following requirements for coinsurance and YRT. Regulators:

- repeated their concerns with a bifurcated risk transfer analysis, stating that it does not reflect the economics of the coinsurance and YRT being interdependent;
- asserted that for interdependent coinsurance and YRT treaties to be evaluated as satisfying risk transfer, an insurer should demonstrate that the YRT cession and premium level is not designed, intended, or in any way acting to enable the coinsurance cession to provide the corresponding high reserve credit and significant surplus relief; and
- emphasized that, consistent with Appendix A-791, paragraph 2, terms resulting in temporary surplus relief should not be included in the combined reinsurance agreements because it would not accurately reflect the true financial impact over time and could violate regulatory requirements.

Next steps. SAPWG will continue to work with the industry and regulators on the proposed revisions and approach to evaluate risk transfer.

Medicare Part D Prescription Payment Plan

Action: SAPWG adopted revisions to SSAP No. 84 to add disclosures for the MPPP. The revisions are effective year-end 2025.

The revisions add the following disclosures about MPPP receivables:

- amounts included in other health care receivables recoverable from participants for the current reporting period;
- aging of other health care receivables due from participants, divided into nonadmitted and admitted; and
- information about the amount of write-offs of MPPP instalments due from participants in the current and previous year.

Reporting of funds withheld and modified coinsurance assets

Action. SAWPG adopted a revision to include information on Modco and funds withheld assets in Schedule S, Part 8 of the Life and Fraternal Annual

Statement. The revised Schedule S includes aggregated data that closely aligns with AVR reporting.

Interested parties supported the revisions made from the prior exposure including property and casualty insurers being excluded from the proposed requirement because property and casualty insurers do not engage in Modco transactions. However, they repeated their request to exclude health reinsurance arrangements that are part of the Life Annual Statement but do not transfer investment risk.

SAPWG stated that Schedule S could not be easily divided to identify assets that support reinsurance contracts that transfer investment risk and those that do not. However, it agreed that the goal of this proposal was to identify only the funds withheld and Modco assets where investment risk is transferred. As such, SAPWG:

- added instructions to clarify that the new Schedule S exhibit includes assets supporting Modco and funds withheld arrangements where the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is transferred to the assuming insurer; and
- acknowledged that this schedule will not reconcile to the restricted asset disclosure in the notes to the financial statements because that disclosure will include all restricted assets, not just those transferring investment risk.

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Kelsey Anderson

Anup Gupta

Olga Roberts

Leigh Wilson Gasparovic

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