KPMG

NAIC Spring 2025 Meeting

Issues & Trends

Latest actions include adoption of restricted asset disclosures for Modco and funds withheld assets, measurement and disclosure of transfer of assets in exchange for cash between the general account and book value separate accounts and new guidance for the Medicare Part D Prescription Payment Plan.

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Contents

1

Meeting highlights

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

- SSAP No. 1 to add a restricted asset disclosure for modified coinsurance (Modco) and funds withheld assets reported on a cedent's financial statements and a reconciliation between the restricted assets in the disclosure and those reported in the general interrogatories.
- SSAP No. 56 to update the recognition and measurement guidance for the transfer of assets in exchange for cash between the general account and book value separate accounts.
- INT 24-02 and revisions to INT 05-05 to add guidance for the Medicare Part D Prescription Payment Program (MPPP).

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

- SSAP No. 1 and the Annual Statement to expand disclosures for restricted assets, to identify whether the Modco and funds withheld assets are related to or affiliated with the reinsurer.
- SSAP No. 7 to (1) define interest maintenance reserve (IMR) and (2) remove hypothetical IMR.
- SSAP No. 22 to clarify that sale leasebacks with restrictions on access to the cash proceeds do not qualify for sale leaseback accounting.
- SSAP No. 84 to add disclosures for the MPPP.
- Recommendation to include information on Modco and funds withheld assets in Schedule S, Part 8 of the Life and Fraternal Annual Statement and remove previously recommended Schedule F, Part 7 in the Property and Casualty Annual Statement.

The NAIC **discussed** the following guidance.

- Comments received on the 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).
- Options to clarify guidance for investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries).

Accounting highlights >>	
Restricted asset clarifications	SAPWG adopted revisions to SSAP No. 1 to add a restricted asset disclosure for Modco and funds withheld assets reported on a cedent's financial statements and a reconciliation between the restricted assets in the disclosure and those reported in the general interrogatories.[1] The revisions are effective December 31, 2025.
Reinsurer affiliated assets	SAPWG exposed revisions to SSAP No. 1 and the Annual Statement to expand quarterly and annual financial statement disclosures for restricted assets to identify whether the Modco and funds withheld assets are related to or affiliated with the reinsurer. Comments are due May 2, 2025.
Interest maintenance reserve definition	SAPWG exposed a definition for IMR that is expected to be included in SSAP No. 7.[2] Comments are due June 6, 2025.
Hypothetical IMR	SAPWG exposed a memo proposing to remove the concept of hypothetical IMR in the Annual Statement Instructions. Comments are due June 6, 2025.
Induced conversions of convertible debt instruments	SAPWG exposed revisions to SSAP No. 15 to adopt, with modification, ASU 2024-04 that clarifies the accounting for induced conversions and when an inducement is recognized as an expense by the debt issuer.[3] Comments are due June 6, 2025.
Sales lease clarifications	SAPWG exposed revisions to SSAP No. 22 to clarify that sale leasebacks with restrictions on access to the cash proceeds do not qualify for sale leaseback accounting and are accounted for by the seller using the financing method.[4] Comments are due June 6, 2025.

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

[2] SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve

[3] SSAP No. 15, Debt and Holding Company Obligations; ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments

[4] SSAP No. 22, Leases

Accounting highlights >>	
Capital notes	On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 41 to clarify which guidance applies to capital notes.[5]
Book value separate accounts	On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 56 to update the recognition and measurement guidance for the transfer of assets in exchange for cash between the general account and book value separate accounts.[6] The revisions are effective January 1, 2026.
Medicare Part D Prescription Payment Plan	SAPWG adopted INT 24-02 and revisions to INT 05-05 to add guidance for the MPPP.[7] The revisions were effective March 30, 2025. SAPWG also exposed revisions to SSAP No. 84 to add disclosures for the MPPP.[8] Comments are due May 2, 2025.
Repacks and derivative wrapper investments	On the call before the Spring meeting, SAPWG adopted revisions to the Annual Statement Instructions to clarify the reporting of repacks and derivate wrapper investments.
Derivative premium clarifications	On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 86 to clarify the terminology and guidance for financing derivatives.[9]
Derivatives used for asset-liability management	SAPWG discussed comments received about the 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.
Investment subsidiary classification	SAPWG deferred action on options to clarify guidance for investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries).

5 SSAP No. 41, Surplus Notes
6 SSAP No. 56, Separate Accounts
7 INT 24-02: Medicare Part D Prescription Payment Program, INT 05-05: Accounting for Revenues Under Medicare Part D Coverage
8 SSAP No. 84, Health Care and Government Insured Plans Receivables
9 SSAP No. 86, Derivatives

Accounting highlights >>	
Securities lending programs and repurchase agreements	SAPWG discussed comments about the memo documenting the current accounting and reporting for securities lending and repurchase agreements.
Scope application of profits interest and similar awards	On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 104 to adopt, with modification, ASU 2024-01 that provides clarification on applying the guidance for stock compensation in the form of profit interests and similar awards.[10] The revisions are effective December 31, 2025.
Collateral loan reporting	SAPWG adopted a reporting recommendation for revisions to the Annual Statement expanding Schedule BA reporting lines for collateral loans effective January 1, 2026.
Reporting of funds withheld and modified coinsurance assets	SAWPG reexposed a recommendation to include information on Modco and funds withheld assets in Schedule S, Part 8 of the Life and Fraternal Annual Statement and to remove the previously recommended Schedule F, Part 7 in the Property and Casualty Annual Statement. The proposed Schedule S includes aggregated data that is consistent with asset valuation reserve (AVR) reporting. Comments are due May 2, 2025.
Issue papers in statutory hierarchy	On a call before the Spring meeting, SAPWG adopted revisions to the NAIC Accounting Practices and Procedures (AP&P) Manual to include issue papers within Level 5 of the statutory hierarchy and to clarify guidance on the use and development of issue papers.
IMR Ad Hoc Subgroup update	SAPWG heard an update about the activities of the IMR Ad Hoc Subgroup.
Referral from Life Risk-Based Capital Working Group	SAPWG received a referral from the Life Risk-Based Capital Working Group to provide comments on the proposal from interested parties to clarify risk-based capital (RBC) treatment for Securities Valuation Office (SVO)-designated non-bond debt securities.

10 SSAP No. 104, Shared-Based Payments; ASU 2024-01, Compensation – Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards

Actuarial highlights >>	
Non-variable annuities	The VM-22 Subgroup reported to Life Actuarial Task Force (LATF) on its decisions on the VM-22 framework.[11] LATF also heard a presentation with a preliminary summary of the VM-22 field test results. The goal is to adopt VM-22 on a prospective basis 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.
Asset adequacy testing	LATF reexposed revisions to the reinsurance actuarial guideline (the Guideline). The Guideline is expected to be effective for the asset adequacy analysis of reserves for the December 31, 2025 financial statements and thereafter. Comments are due April 24, 2025.
Generator of Economic Scenarios	LATF received an update about the Generator of Economic Scenarios (GOES) field test, including observations on the results. The GOES Subgroup will continue to discuss field test results. Work will begin in early 2025 on a proposal to modify the Valuation Manual for GOES, followed by work on changes to the Life RBC requirements.
Actuarial Guideline 53	On a call before the Spring meeting, LATF updated the Financial Stability Task Force on its current year reviews of Actuarial Guideline 53 (AG 53) filings that require disclosures of asset-related information for life insurers in the scope of AG 53.[12]
Risk-based capital highlights >>	
Structured securities	The Risk-Based Capital Investment Risk and Evaluation (RBC IRE) Working Group received an update from the American Academy of Actuaries (Academy) on the proposed RBC principles for structured securities.
Principles for bond funds	The RBC IRE Working Group discussed comments on a presentation from interested parties about RBC principles for bond funds and the NAIC's memorandum of bond funds reported in 2023 Annual Statement filings.

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

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

Risk-based capital highlights >>	
Risk-based capital preamble	The Capital Adequacy Task Force reexposed the proposal to revise the RBC Preamble to clarify the purposes and intent of using RBC. Comments are due May 9, 2025.
RBC Model Governance Task Force	Before the Spring meeting, the NAIC formed the RBC Model Governance Task Force.

2

Accounting highlights

Restricted asset clarifications

Action. SAPWG adopted revisions to SSAP No. 1 to add a restricted asset disclosure for Modco and funds withheld assets reported on a cedent's financial statements and a reconciliation between the restricted assets in the disclosure and those reported in the general interrogatories. The revisions are effective December 31, 2025.

The revisions to SSAP No. 1 include:

- a disclosure of the differences between the book/adjusted carrying value (BACV) of restricted assets in the note to the financial statements and the amounts reported for the same categories in the general interrogatories;
- a clarification that the restricted assets disclosure includes assets reported in the financial statements that are pledged to a counterparty and not included in other specified categories, including assets pledged under derivative arrangements; and
- a clarification that the restricted asset disclosure includes the BACV and nature of assets that are held under Modco or funds withheld reinsurance agreements for which there is a recognized liability to return these collateral assets, or for the dedicated use of those assets under the Modco or funds withheld reinsurance agreements.

The Blanks Working Group is considering adopting similar revisions to the Annual Statement Instructions. The Annual Statement Instructions also include an illustration of the presentation of all restricted assets reported in the financial statements compared to total assets and a new table explaining the differences between the restricted asset disclosure and the general interrogatories. Other revisions to the Annual Statement Instructions include new lines to report the magnitude of Modco and funds withheld assets on collateral.

SAPWG also received comments from interested parties' that included requests to:

- add instructions for some of the new columns and rows in the notes in the Annual Statement;
- address different formats for health and property and casualty insurers;
- clarify what happens if assets pledged show up as restricted assets in another row; and
- remove reference to SSAP No.1 paragraph 23 c. from the restricted asset table, that requires reporting of:

  - collateral assets received and recorded on the balance sheet; and
  - assets held under Modco or funds withheld reinsurance agreements.

- confirm that the disclosure should exclude collateral received from securities lending and repurchase agreements.

SAPWG stated their support for the revisions in the Annual Statement and did not recommend changes.

Next steps. SAPWG will send a referral to the Life RBC Working Group to clarify the guidance for when an RBC reduction can occur for Modco for funds withheld reinsurance agreements. The referral proposes language stating that if any portion of a Modco or funds withheld reinsurance agreements assets are used as pledged assets concurrently with being included as a Modco or funds withheld assets, the RBC for the cedent is not reduced. However, if the economic benefit from pledging the assets benefits the reinsurer throughout the duration of the reinsurance treaty, the cedent is allowed to reduce its RBC for those assets.

Reinsurer affiliated assets

Action. SAPWG exposed revisions to SSAP No. 1 and the Annual Statement to expand disclosures in quarterly and annual financial statements for restricted assets to identify whether the Modco and funds withheld assets are related to or affiliated with a reinsurer. Comments are due May 2, 2025.

The proposed 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 related party or affiliated investments to the reinsurer; and

- direct insurers to use existing related party investment codes to identify whether investments are related party investments.

SAPWG stated that these revisions are in response to a referral from the Financial Analysis Working Group that requested enhanced disclosures.

Interest maintenance reserve definition

Action: SAPWG exposed a definition for IMR that is expected to be included in SSAP No. 7. Comments are due June 6, 2025.

The exposure included two options for the definition. **Option 1**, proposed by interested parties and **Option 2** that included NAIC staff edits to the first option.

Option 1 states that IMR:

- is a valuation adjustment to maintain consistency between insurance liabilities and the assets needed to support them;
- defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed-income investment sales or fixed-income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities;
- is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows; and
- valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework that often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

Option 2:

- removes reference to derivative hedging transactions;
- clarifies that IMR should not defer gains and losses compelled by liquidity pressures that fund cash outflows; and
- removes the statement that the IMR valuation adjustment more appropriately reflects statutory surplus.

Hypothetical IMR

Action: SAPWG exposed a memo proposing to remove the concept of hypothetical IMR in the Annual Statement Instructions. Comments are due June 6, 2025.

The memo asserts that practical limitations of applying the concept of hypothetical IMR outweigh the potential benefits of retaining the concept. It details the discussions and conclusions of the IMR ad hoc subgroup about hypothetical IMR and also provides an analysis of the theoretical basis for hypothetical IMR, practical limitations, and an illustrative example to demonstrate its impact on surplus in reinsurance transactions.

NAIC staff anticipates that the discussion on this memo and the ultimate conclusion will be documented in the IMR issuer paper.

Induced conversions of convertible debt

Action. SAPWG exposed revisions to SSAP No. 15 to adopt, with modification, ASU 2024-04 that clarifies the accounting for induced conversions and when an inducement is recognized as an expense by the debt issuer. Comments are due June 6, 2025.

The proposed revisions clarify that for convertible debt instruments subject to an inducement offer:

- the debt issuer measures and recognizes an expense on the date the offer is accepted by the debt holder; and
- the fair value of the additional securities granted or other consideration issued is determined under the conversion privileges provided in the terms of the existing debt instrument.

Sales lease clarifications

Action. SAPWG exposed revisions to SSAP No. 22 to clarify that sale leasebacks with restrictions on access to the cash proceeds do not qualify for sale leaseback accounting and are accounted for by the seller using the financing method. Comments are due June 6, 2025.

The proposed revision was in response to a question received by SAPWG about whether a sale leaseback transaction that included a significant restriction to the cash received as part of the sale meets the definition of a sale leaseback. This transaction did not allow the selling insurer to access cash until the leaseback was fully paid off, years in the future.

Capital notes

Action. On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 41 to clarify which guidance applies to capital notes.

The revisions:

- add a footnote stating when INT 24-01 defines an instrument as a capital note;[13]
- clarify that capital notes are to be nonadmitted when the regulatory authority halts principal or interest payments;
- clarify the measurement guidance by replacing references to credit rating provider ratings with a reference to NAIC designations;
- update the impairment guidance to include reference to capital notes; and
- remove disclosures:
  - identifying a holder of the note or, if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party pursuant to SSAP No. 25;[14] and
  - identifying a holder of 10% or more of the outstanding amount of a surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

[13] INT 24-01: Principles-Based Bond Definition Implementation Questions & Answers

[14] SSAP No. 25, Affiliates and Other Related Parties

Book value separate accounts

Action. On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 56 to update the recognition and measurement guidance for the transfer of assets in exchange for cash between the general account and book value separate accounts. The revisions are effective January 1, 2026.

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

- assets supporting separate account contracts, except for fund accumulation and insulated or non-insulated contracts, are reported at fair value, as determined under SSAP No. 100;[15]
- assets supporting the following separate account contracts are permitted to be reported at book value:
  - 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, but do not directly pass all investment experience of the underlying assets to the policyholder, with approval of the state insurance regulator;
- asset transfers that reflect sales for cash between general and separate accounts are recorded at fair value and those that do not are subject to domiciliary state approval;

The revisions also update the separate account AVR and IMR reporting guidance and add disclosures to both the insurer and the separate account. In the financial statements of the insurer, disclosures are added for:

- separate account contracts where the general account provides an inherent or ultimate guarantee, such as pension risk transfer (PRT) or registered index-linked annuity (RILA) products to:
  - indicate whether risk charges have been provided to the general account; and
  - affirm the inclusion of these separate account products within asset-liability testing.
- repurchase or reverse repurchase agreements within separate accounts:
  - discussion of such transactions; and
  - the amount of any sold or acquired securities under repurchase agreements;
- discussion of asset transfers that did not reflect sales for cash between the general account and separate account.

[15] SSAP No. 100, Fair Value

In the Separate Account Annual Statement, disclosures are added to:

- identify assets supporting separate account contracts where the general account provides an inherent or ultimate guarantee such as PRT or RILA products;
- include the insurer's policies and use of repurchase and reverse 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.

Medicare Part D Prescription Payment Plan

Action: SAPWG adopted INT 24-02 and revisions to INT 05-05 to add guidance for the Medicare Part D Prescription Payment Program (MPPP). The revisions were effective March 30, 2025.

The revisions to INT 05-05 add a reference to INT 24-02 for guidance on MPPP.

The revisions to INT 24-02 address the MPPP components of Medicare Part D and state that MPPP recoverables from MPPP participants be:

- accrued and reported as an asset for health care and other amounts receivable when the related payment is made by the Part D plan sponsor to the pharmacy for out-of-pocket cost incurred on behalf of the MPPP participant;
- considered an admitted asset if they are 90 days or less overdue to the extent that they comply with the guidance in the INT;
- considered nonadmitted if more than 90 days overdue with the due date for aging following the program billing guidelines;
- excluded from the income statement as claims or claims adjusting expenses, if:
  - recoverable from an MPPP participant is fully collected; and
  - the amounts received by the Part D plan sponsor is equal to the corresponding out-of-pocket payment it made for a pharmaceutical claim; and
  - evaluated for impairment under SSAP No. 5 with any uncollectable recoverables written off, with the expense recorded like an incurred Medicare Part D prescription drug claims in the income statement.[16]

The INT also states that:

[16] SSAP No. 5, Liabilities, Contingencies and Impairments of Assets

- insurers record a claims expense, a contra claims expense, and a contra claims expense recoverable when the Part D plan sponsor pays out-of-pocket drug claims to the pharmacy;
- if the MPPP participant pays the amount due in full, there is no income statement charge in claims expenses resulting from the Part D plan sponsor payment of the MPPP participant's out-of-pocket costs to the pharmacy;
- If the MPPP participant balance is not repaid, there is an income statement charge to reflect the paid amount in claims expense for the uncollectible MPPP balance that has been evaluated as impaired and written off; and
- costs incurred by Part D plan sponsors in implementing the MPPP program and related collections are included in the administrative expenses of the Part D plan sponsor and not in claims expenses or claim adjustment expenses;

The INT points out that statutory reporting treats written off (impaired) recoverable from MPPP participants in Medicare prescription claims differently than Center for Medicare and Medicaid Services (CMS) does in the Medical Loss Ratio (MLR). CMS requires Part D plan sponsors to report losses from impairment write-offs as administrative amounts, excluding them from the MLR numerator. However, under statutory accounting, these amounts are reported as claims expenses and included in the loss ratio numerator.

Action: SAPWG exposed revisions to SSAP No. 84 to add disclosures for the MPPP. Comments are due May 2, 2025.

The proposed revisions add the following disclosures about MPPP receivables:

- amounts included in other health care receivables that are recoverable from participants for the current reporting period and the previous year;
- 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.

Repacks and derivative wrapper investments

Action. On the call before the Spring meeting, SAPWG adopted revisions to the Annual Statement Instructions to clarify the reporting of repacks and derivative wrapper investments.

The revisions state that debt securities sold to a special purpose vehicle and then reacquired with the addition of derivatives or other components are reported as a disposal and an acquisition in the investment schedules.

Derivative premium clarifications

Action. On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 86 to clarify the terminology and guidance for financing derivatives.

The revisions clarify that:

- unpaid or deferred premiums be considered synonymous with financing premium; and
- a derivative premium that is not paid or received at inception of the derivative contract represents a financing premium and is recorded as a liability.

SAPWG will consider the previously exposed clarification about the calculation of realized losses in relation to a derivative premium in conjunction with the ALM derivative topic.

Derivatives used for asset-liability management

At the Spring meeting, SAPWG discussed comments received about the 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.

Currently, macro-hedges do not qualify as effective hedges under the requirements of SSAP No. 86. Interested parties support development of new statutory accounting guidance and provided comments that included:

- a statement of support for reporting realized losses as admitted assets;
- an assertion that there should not be limits on:
  - the admittance of realized losses (through IMR); and
  - the admittance other ’soft’ assets such as deferred tax assets, electronic and data processing equipment and software and goodwill.

NAIC staff continued to question if admittance of realized losses should be unlimited stating it is not guaranteed that realized losses would qualify as admitted asset or have unlimited admissibility. They also pointed to reasons why limitations may be appropriate, including that:

- before the issuance of INT 23-01:[17]
  - net negative IMR was reported as a nonadmitted asset;
  - regulators were unaware that some insurers were interpreting the Annual Statement Instruction reference of “hedging” to permit capitalization of realized losses for non-accounting effective derivatives through IMR;

[17] INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve

- deferring and amortizing gains or losses from derivatives are not permitted under U.S. GAAP; and
- specific regulatory caps and limits already exist for certain types of 'soft assets', and it is consistent with statutory principles to apply an aggregate cap on the accumulation of such assets within the same framework.

Next step. SAPWG directed NAIC staff to work with interested parties to develop guidance to defer derivative realized gains and losses, including removing them from IMR balance.

Investment subsidiary classification

SAPWG deferred action on options to clarify guidance for investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries).

Option 1. Revise SSAP No. 97 to add guidance for investment subsidiaries that would prescribe the measurement method and potential nonadmittance thresholds if the assets in the investment subsidiary would be nonadmitted if held directly.[18]

Option 2. Sponsor a proposal for changes to the Annual Statement Instructions to add new investment schedules, or expand existing investment schedules, to disclose underlying assets held by an investment subsidiary.

Option 3. Send a referral to the Capital Adequacy Task Force and related RBC Working Group to add details that allow regulators to verify the RBC calculation for underlying assets in investment subsidiaries.

SAPWG stated that there has been an increase in the use of investment subsidiaries. This proposal is in response to questions received by SAPWG about the classification of investment subsidiaries in Schedule D and the Life RBC formula.

Interested parties commented on previously exposed options:

Option 1. They agreed with adding guidance to SSAP No. 97 to:

- include the definition of an investment subsidiary from Schedule D; and
- provide clarification on accounting for these investments.

Interested parties also stated that new guidance should clarify:

- how to apply the imputed value requirement in the investment subsidiary definition; and
- that in no instance can RBC charges applied to the underlying assets be more beneficial than if the assets were held directly by the insurer.

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

Option 2. They stated that including a listing of each underlying asset of the investment subsidiary will reduce the operational efficiency.

Option 3. They supported providing transparency for RBC purposes and suggested providing asset details by groupings that match AVR and RBC schedules or including details in a note to the financial statements to reduce the burden.

Interested parties also stated that:

- the concept of an investment subsidiaries should not be limited to Schedule D common stock and preferred stock investments but also include investments in subsidiaries legally structured as limited partnerships (LPs) or limited liability companies (LLCs);
- many investments subsidiaries are in the form of Delaware Statutory Trusts (DSTs) that do not maintain separate capital accounts for each investor since the ownership interest is usually reported by shares or beneficial interest similar to ownership of equity corporation, as such, insurers should be able to determine if the investment subsidiary is more similar to common stock (Schedule D) or LP/LLC interests (Schedule BA); and
- some trusts hold mortgage loans that allow for direct reporting on Schedule B because the insurer has an undivided interest in each mortgage, thus these mortgage loans should be considered outside the scope of the investment subsidiary guidance.

Next step: SAWPG acknowledged that many of the investment subsidiaries are in the form of DSTs. It directed NAIC staff to further consider DSTs holding residential mortgage loans and whether specific statutory accounting guidance is needed.

Securities lending programs and repurchase agreements

SAPWG discussed comments about the memo documenting the current accounting and reporting for securities lending and repurchase agreements. Interested party comments included:

- recommendation to disclose the type of collateral received in securities lending programs to provide regulators with sufficient comfort that additional admittance restrictions on collateral received would be duplicative;
- agreement that consistent terminology between RBC and the Annual Statement is needed clarifying that the loaned security is identified as a restricted asset;
- question about the need to compare the fair value of original collateral with lent securities, suggesting that existing margining processes, including existing disclosures, are sufficient;
- agreement that admittance calculations should be based on fair value rather than book value of the original collateral and loaned security;

- statement that the definition of acceptable collateral has been misapplied to reinvestment portfolios which could disrupt economic viability of the securities lending program;
- observation that securities borrowing transactions are very different from securities lending transactions and there is no plan to request establishment of conforming securities borrowing programs with changes to RBC;
- suggestion that extending Schedule DL to repurchase agreements may only be appropriate for future conforming repo programs;
- highlight that the margining process aligns the market value of the collateral received with the market value of the security lent, removing the need for regulators to test the market value of the original collateral received;
- belief that there should not be regulatory restrictions on the type of collateral received in reverse repo transactions, provided that it is a permitted investment; and
- belief that there should not be restrictions on short-term lending receivables, stating that other short-term receivables are not considered restricted.

Next steps: SAPWG directed NAIC staff to develop clarified accounting guidance, which may include separating securities lending and repurchase guidance from SSAP No. 103 into a separate statement.[19] SAPWG stated that the following specific elements will be reviewed during this process:

- the 'conforming' provisions for securities lending transactions, including mechanisms in place to confirm compliance as well as verify regulator intent for application;
- current admittance provisions based on ongoing comparisons to fair value;
- potential for enhanced guidance and disclosure for repo transactions that result in the received collateral being used as working capital, or other external uses;
- existing disclosures for both repurchase and securities lending transactions with a goal to simplify and consolidate to the extent possible; and
- restricted asset coding for securities lending and repurchase transactions and a review of the current short-term admittance provisions for repurchase transactions.

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[19] SSAP No. 103, Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Scope application of profits interest and similar awards

Action. On a call before the Spring meeting, SAPWG adopted revisions to SSAP No. 104 to adopt, with modification, ASU 2024-01 that provides clarification on applying the guidance for stock compensation in the form of profit interests and similar awards. The revisions are effective December 31, 2025.

The revisions state that insurers that issue profits interest or similar awards as compensation to employees and nonemployees in exchange for goods or services follow the guidance in SSAP No. 104 to determine whether the award is a share-based payment transaction in the scope of SSAP No.104.

Collateral loan reporting

Action. SAPWG adopted reporting recommendations for revisions to the Annual Statement expanding Schedule BA reporting lines for collateral loans effective January 1, 2026.

The revisions 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 include a new category within the AVR reporting schedule to include collateral loans.

Interested parties provided several editorial revisions to the Blanks Working Group's proposal including a suggestion to align a footnote in the Annual Statement with the Schedule BA Collateral Loan categories to remove the footnote because they interpreted it to be redundant with the proposed changes.

SAPWG said that the note disclosure that details collateral loans by investment category is not duplicative to the Schedule BA reporting lines because it is more granular and separates collateral loans by the distinct type of qualifying collateral. It also pointed out that this disclosure is included in SSAP No. 21 and action to remove it would need to be considered as a revision to the SSAP, in addition to being a revision to the Annual Statement.[20]

[20] SSAP No. 21, Admitted Assets

Reporting of funds withheld and modified coinsurance assets

Action. SAWPG reexposed a recommendation to include information on Modco and funds withheld assets in Schedule S, Part 8 of the Life and Fraternal Annual Statement and to remove the previously recommended Schedule F, Part 7 in the Property and Casualty Annual Statement. The proposed Schedule S includes aggregated data that is consistent with AVR reporting. Comments are due May 2, 2025.

The previous exposure recommended to add a new part to the Schedule S requiring disclosure of individual assets held under a funds withheld arrangement with a separate identifier for Modco assets for all Annual Statements.

Interested parties:

- requested that property and casualty insurers be excluded from the proposed requirements primarily because property and casualty insurers do not engage in Modco transactions, and funds withheld provisions in reinsurance agreements have significantly decreased;
- requested the application of the requirement be limited to reinsurance arrangements under which investment risk is being passed to the reinsurer or where the terms of the reinsurance arrangement require segregation or specific identification of assets used to collateralize the ceded reserve;
- expressed concern about granularity of the disclosure that would have required CUSIP level information that may cause competitive harm and jeopardize the proprietary nature of reinsurance pricing strategies; and
- recommended that disclosures follow the AVR schedule format, showing summarized data by asset class and rating category, aligning with the RBC calculation structure.

SAPWG agreed to remove the disclosure requirement for property and casualty insurers because the vast majority of Modco and funds withheld contracts are entered into by life insurers. However, it did not include an exception as requested by interested parties because it wanted to get a better understanding of assets supporting all Modco and funds withheld contracts. SAPWG stated that its plan is for this disclosure to be effective for 2025 year-end reporting.

Issue papers in statutory hierarchy

Action. On a call before the Spring meeting, SAPWG adopted revisions to the NAIC AP&P Manual to include issue papers within Level 5 of the statutory hierarchy and to clarify guidance on the use and development of issue papers.

The revisions modify the Statutory Accounting Principles Preamble and Appendix E of the AP&P Manual to include issue papers within Level 5 of the statutory hierarchy and clarify they are only used and applied as authoritative guidance if they do not conflict with other sources of statutory guidance.

Interested parties stated that classifying issue papers in Level 2 or Level 4 of the hierarchy would be more appropriate. Their reasons included an assertion that the issue papers Level 2 classification would appropriately position them above Annual Statement Instructions and highlight their role in providing interpretative guidance not included in SSAPs.

NAIC staff suggested that consideration of a Level 5 classification is most appropriate to prevent any unintended conflicts with other sources of statutory guidance.

IMR Ad Hoc Subgroup update

NAIC staff provided an update about the activities of the IMR Ad Hoc Subgroup stating that the Subgroup's discussions focused on:

- IMR from reinsurance transactions;
- concept to prove reinvestment for sold fixed-income instruments where a realized gain or loss is taken to IMR; and
- guidance for excess withdrawals, with a goal to potentially address both reinvestment and excess withdrawal assessments collectively.

The IMR Ad Hoc Subgroup is expecting to consider the yield assessments supporting an improvement to asset yield when reinvestment occurs.

SAPWG stated that it will review the timeline and assess INT 23-01 because it will be automatically nullified on January 1, 2026.

Referral from Life Risk-Based Capital Working Group

SAPWG received a referral from the Life Risk-Based Capital Working Group to provide comments on a proposal from interested parties to clarify RBC treatment for SVO-designated non-bond debt securities.

The referral outlines two options for SVO-designated non-bond debt securities:

Option 1. Allow an asset concentration factor similar to bonds.

Option 2. Assess an asset concentration factor of 15% that applies to "Other Schedule BA Assets."

NAIC staff stated that:

- these assets do not qualify as bonds under SSAP No. 26; and
- the SVO-assigned designation focuses on credit quality and does not transform a non-bond debt security to a bond under SSAP No. 26.

3

Actuarial highlights

Non-variable annuities

The VM-22 Subgroup reported to LATF on its decisions on the VM-22 framework, including the use of:

- the standard projection amount as a disclosure requirement and not a binding floor;
- the reinvestment guardrail of 5% Treasuries, 15% AA, and 80% A;
- a 1% future mortality improvement sensitivity for the stochastic exclusion ratio test;
- a 6% stochastic exclusion ratio test threshold; and
- a longevity reinsurance transaction flooring methodology of 2% of annual longevity benefits floor at the scenario reserve level.

On its calls, the Subgroup also discussed revisions to policyholder behaviour assumptions in the VM-22 standard projection amount.

The Subgroup stated that they are on track to complete VM-22 in mid-2025, with an initial effective date of January 1, 2026 and a three-year implementation period, with it becoming mandatory for new non-variable annuity contracts on January 1, 2029, prospectively.

LATF also heard a presentation with a preliminary summary of the VM-22 field test results. 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 frameworks are 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 results focused on the changes in reserves and highlighted that:

- the stochastic reserve is driving the final reserve more often than the standard projection amount for payouts and non-WB accumulation products while the standard projection amount is winning more often on WB products;
- for the payout category, model office results showed a decrease in VM-22 reserves compared to Commissioners Annuity Reserve Valuation Method (CARVM), however there was a wide range of results, with some showing an increase in reserves;
- for the accumulation category:

- for fixed deferred annuity and fixed indexed annuities (FIAs) with no withdrawal benefits (WB) most insurers saw a modest increase while some saw modest decrease;
- for FIAs with WB most insurers saw a decrease compared to CARVM, however some saw an increase or more modest decrease.

The presentation concluded that overall, there was a wider range of results than was expected across all products with assets used in the VM-22 modelling being a key driver of results of all products.

The presentation also highlighted changes from the previous C-3 RBC calculation to the C-3 RBC calculation included in the proposed VM-22 framework. The results varied widely, with some insurers experiencing significant increases in capital requirements due to higher tail risks, while others saw a decreases.

Asset adequacy testing

Action. LATF reexposed revisions to the reinsurance actuarial guideline (the Guideline). The Guideline is expected to be effective for asset adequacy analysis of reserves for the December 31, 2025 financial statements and thereafter. Comments are due April 24, 2025.

Revisions to the Guideline:

- remove the term ‘associated party’ and replace it with ‘affiliated’, where appropriate;
- clarify an exemption criteria from cash-flow testing may be provided by the cedent’s domestic regulator if any of the following criteria would have been met at any point on or after January 1, 2025 and the assuming insurer is not an entity:
  - that otherwise meets the NAIC Model Act 440 definition of an affiliate or meets the NAIC classification as a related party; or
  - with greater than 25% of the assuming reinsurer’s reserves being assumed from the ceding insurer or insurers in the same group as the ceding insurer; or
  - where the cedent or another insurer in the cedent’s group has 1% or greater ownership of the assuming insurer; and
- update guidance for cash flow testing by:
  - requiring explanation of the use of any non-primary securities used in the analysis associated with the alternative run;
  - encouraging insurers to project and present the results of the New York 7 scenarios for this Guideline, if it includes those projections as part of its standard VM-30 filing;[21]
  - requiring the modelling of assets used to support the starting asset amount, if the insurer has knowledge of those assets; and

[21] VM-30, Actuarial Opinion and Memorandum Requirements

  - requiring an insurer to perform the following when it does not have knowledge of the actual assets used to support the starting asset amount:
    - use reasonably conservative assets and asset-related assumptions in the cash-flow testing projections;
    - add commentary explaining how the modelling of assets and asset-related assumptions is conservative; and
    - comment on what the cedent knows about the assets or investment strategy.

The Guideline is expected to be adopted by the NAIC later this year with first reports due on April 1, 2026 for 2025 year-end.

LATF discussed comments on the various aspects of the draft Guideline including:

- request to remove the term ‘associated party’ because it introduces a new concept and creates deviation from existing concepts; and

- ability for insurers to provide projections on interest rate scenarios other than New York 7 scenarios.

Regulators acknowledged interested parties’ concern and stated removing the term and including the term ‘affiliated” in the description of exemption criteria would bring more consistency. Regulators also stated they would like to see New York 7 scenarios; however, they would not require them under asset adequacy testing. Some regulators expressed concern with creating a requirement that is different than VM-30.

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 reserves and thereby facilitate a release of reserves. 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.

Generator of Economic Scenarios (GOES)

The Generator of Economic Scenarios Subgroup discussed updates to the scenario subset stating the proposed VM-20 and VM-21 language would allow for the use of scenario subsets provided they meet the simplification, approximation, and modelling efficiency technique requirements of VM-20.[22] LATF discussed concerns about an insurer’s ability to change their sub-set

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

methodology year-to-year but decided to allow it with a potential to add additional disclosures.

LATF heard a presentation on the model office testing performed over the stochastic exclusion ratio test (SERT) analysis and the impacts of scenario revisions. The model office tested the revised initial yield curve fitting methodology, dynamic generalized fractional flooring, and equity calibration GOES revisions. The results of the model test identified:

- transitioning from the Academy scenario sets to the GOES scenario sets significantly increases the SERT ratio due to a large rise in the maximum adjusted deterministic reserve, outweighing a slight increase in present value benefits;
- Conning scenario revisions led to a minor increase to the SERT ratio driven by lower PV benefits and a widened spread between baseline deterministic reserve and max adjusted deterministic reserve; and
- changing assumptions from anticipated experience assumptions without margins to prudent best estimate assumptions with margins leads to a significant increase in the SERT ratio driven by a significantly widened spread between baseline deterministic reserve and max adjusted deterministic reserve outweighing higher PV benefits.

The presenters commented that the SERT ratios were most heavily affected by the initial change from the Academy scenarios to the Conning scenarios and the application of prudent best estimate assumptions.

The SERT threshold field test participant results showed that majority of the field test participants' model segments passed the SERT with a 6% threshold with more participants failing with increased SERT thresholds. Regulators discussed whether to maintain a 6% threshold based on these results or increase the threshold to 7% which would increase participant passing rate back up to similar levels of 77%. LATF decided to maintain the 6% threshold.

Interested parties also presented a proposal to revise to the deterministic reserve scenarios to re-align the deterministic reserves to their originally designed relationship with stochastic distribution. They stated the current approach is producing a deterministic reserve that falls materially lower in the stochastic distribution of rates. This would throw off the original design of the relationship between the deterministic reserve and stochastic reserve such that the deterministic reserve would tend to drive final reserves. Interested parties recommended adding .01 to shocks in all years because it will allow easier implementation and maintain proper relationships among rates and returns.

Next steps. LATF plans to adopt the revisions to the Valuation Manual economic scenario generator references for the adoption of the Conning-maintained prescribed economic scenario by mid-year 2025 with the need for Life RBC to adopt blanks changes by mid-year 2026. NAIC staff will work with Conning to build out governance processes and production scenario posting procedures.

Actuarial Guideline 53

On a call before the Spring meeting, LATF updated the Financial Stability Task Force on its current year reviews of AG 53 filings that require disclosures of asset-related information for life insurers in the scope of AG 53.

The presentation outlined several areas of focus for the reviews of AG 53 including reducing reliance on high net yields to pay claims, ensuring reinsurance collectability, and improving documentation for payments in kind.

The third round of annual submissions was received on April 1, 2025.

At the Spring meeting, LATF heard a presentation on the AG 53 filings focusing on information related to internally determined fair values for Level 3 valuations, such as projected values, asset types, valuation method for each asset, discount rate determination, and fair value effect.

It highlighted the impacts of incorrect assessment on cash flow testing and reliance on internal modelling for Level 3 valuations due to the lack of readily available market data, stating that this can complicate fair value assessments. The most common asset types identified as most likely to have internally determined fair values are commercial and residential mortgages and private placements. The presentation also discussed valuation methods used, such as discounting projected cash flows.

The presenter stated that incorrect fair value determinations can significantly affect cash-flow testing results, solvency metrics, and the perceived financial stability of insurers. This emphasizes the importance of clear disclosures regarding asset valuation.

Regulators stated they expect to have future discussions on this topic.

4

Risk-based capital

Structured securities

The RBC IRE Working Group received an update from the Academy on the proposed RBC principles for structured securities.

The Academy stated it is working to develop a collateral model that will model credit losses on the collateral pool of bank loans. The objective is to have consistency with C-1 bond factors by using the same loss model that underlies C-1 bond factors with some potential differences.

The Academy acquired collateralized loan obligation (CLO) data from Moody's with a goal of identifying and assessing comparable attributes that can reliably predict the risks of CLOs. It also finalized the collateral modelling approach and scenario compression approach. The collateral modelling approach:

- prioritizes consistency with C-1 bond factors;
- uses C-1 bond model to produce loss distribution;
- adjusts for seniority of loans versus bonds and any other known, relevant differences;
- considers closed-form approximation of loss distribution; and
- stresses the timing of losses.

In the scenario compression approach the tail of the collateral loss distribution will be subdivided into several discrete ranges and the average loss of each range will then be run through the CLO cash flow model.

Next Step: The Academy will continue its work over:

- acquisition of the C-1 bond factor model or results, allowing for collateral modelling specification and approximation and scenario compression specification;
- parameterization of the CLO cash flow model;
- conversion of CLO cash flows into losses for C-1 capital, allowing for identification of comparable attributes and development base factors; and
- updates to the diversification and concentration.

Principles for bond funds

The RBC IRE Working Group discussed comments on a presentation from interested parties about RBC principles for bond funds and the NAIC's memorandum of bond funds reported in 2023 Annual Statement filings.

The presentation was a result of the Working Group's direction to narrow the scope of the comprehensive fund review to three specific types of bond funds: bond exchange-traded funds (ETFs), U.S. Securities and Exchange Commission (SEC)-registered bond mutual funds, and private bond funds that are not treated equally within the RBC formula. Interested parties developed guiding principles to determine if work is needed to align the RBC treatment of these instruments. Based on analysis performed, interested parties recommended that SEC-registered bond mutual funds be treated the same in the RBC framework as ETFs and private bond funds by being able to apply SVO's weighted average rating factor methodology. The presentation asserted that this RBC treatment will reflect the underlying economic risk of the collateral rather than the legal form or accounting method of the fund.

At the Spring meeting, interested parties reiterated the need for regulatory consistency across bond ETFs, SEC-registered bond mutual funds, and private bond funds that would allow for capital treatment commensurate with the economic risks rather than legal structure. They also highlighted that the current RBC framework applies different charges to bond funds with substantially similar economic risks, which disincentivizes efficient capital allocation.

Regulators expressed interest in a formal proposal on this topic. The RBC IRE Working Group directed the NAIC staff to start drafting a proposal; however, it acknowledged that this proposal would not be effective for 2025 reporting.

Risk-based capital preamble

Action. The Capital Adequacy Task Force reexposed the proposal to revise the RBC Preamble to clarify the purposes and intent of using RBC. Comments are due May 9, 2025.

The proposed revisions include clarifications to the intended use of RBC including that RBC:

- is limited in its use to identifying potentially weakly capitalized insurers for regulatory action and oversight;
- does not provide complete, clear or meaningful ranking of insurers and using RBC for such purpose could create undesirable incentives for insurers that are not at risk of triggering an action level;
- is not appropriate to evaluate risk outside of the regulatory framework when identifying weakly capitalized insurers; and

- can fluctuate without indicating a change in an insurer's financial strength.

Interested parties requested the Task Force defer any action on this proposal. They expressed concerns, stating that maintaining public disclosure of RBC is essential for policyholders and investors, and removing RBC transparency may lead to reliance on alternative metrics that could misrepresent an insurer's financial strength. Commenters also emphasized that public RBC disclosure aligns with international standards and making it confidential would make state regulation an outlier.

With the reexposure, the Task Force requested comments about:

- adopting the proposed edits to the preamble as is, including no changes to the five-year historical data page in the Annual Statement; and
- how risk-based capital ratios are used other than the intended purposes of identifying potentially weakly capitalized insurers.

Background: The Capital Adequacy Task Force has been working on updating the preamble to reflect changes in the insurance industry and regulatory environment. The revised preamble is part of a broader effort to enhance the effectiveness of the Capital Adequacy framework.

RBC Model Governance Task Force

Before the Spring meeting, the NAIC formed the RBC Model Governance Task Force.

The new Task Force will be developing guiding principles for updating RBC formulas to address current investment trends, focusing on RBC precision in asset risk and ensuring that insurance capital requirements maintain their strength while balancing solvency with the availability of products to meet consumer needs.

The proposed changes for 2025 include:

- developing a set of guiding principles for the RBC framework to ensure a consistent approach to future RBC adjustments, which address the following questions:
  - when should a particular risk be addressed in the RBC model?
  - what level and type of data and analysis are needed to support the setting of capital factors?
  - how should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?
  - what level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?
  - when should the calibration of risks to capital factors be re-evaluated?
- completing a comprehensive gap analysis and consistency assessment to identify and address gaps and potential inconsistencies;

- overseeing the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework;
- facilitating coordination and alignment among all NAIC committees and task forces related to this initiative; and
- creating a process for analyzing both retrospective and future adjustments to RBC, incorporating regular reviews of RBC outcomes and ensuring future adjustments align with guiding principles.

Interested parties supported the formation of the Task Force stating that developing guiding principles and completing a gap analysis to promote consistency will be beneficial to regulators, insurers, and other external stakeholders. Interested parties suggested that the Task Force have a comprehensive view across the RBC framework and related initiatives, including reserving, statutory accounting, and reinsurance. Interested parties also provided feedback on the gap analysis to be performed.

The Task Force stated further discussion of the comments received is expected at future meetings.

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