



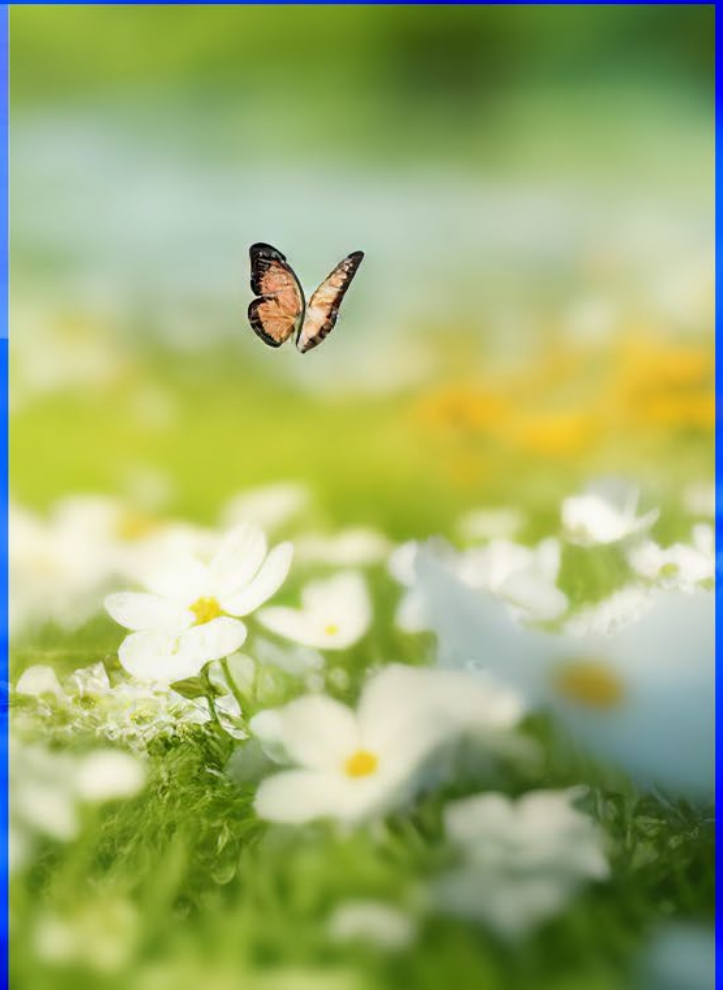
NAIC Spring 2026 Meeting

Issues & Trends

Latest actions include adoption of a new statutory accounting concept and related template for an interest maintenance reserve proof of reinvestment requirement and exposure of a new SSAP with guidance for interest rate hedging derivatives used for asset-liability management.

April 2026

frv.kpmg.us



Contents

Meeting highlights	1
Accounting highlights	6
Actuarial highlights	16
Risk-based capital	22
Other developments	26
KPMG Financial Reporting View	28
Acknowledgments	29

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. 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.
- New statutory accounting concept and related template for an interest maintenance reserve (IMR) proof of reinvestment requirement.
- A proposal to update the reinvestment guardrails for VM-20, VM-21 and VM -22 to align them.

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

- SSAP No. 52 to add new disclosures and a glossary for funding agreement-backed notes (FABNs) and other similar structures.
- SSAP No. 109 and related issue paper for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for asset-liability management (ALM).
- Questions about retrospective application of VM-22 to enforce policies and a proposed approach developed by interested parties.
- VM-22 reinvestment guardrail requirements for pension risk transfer (PRT).
- Proposal to modify the revised risk-based capital (RBC) treatment of collateralized loan obligations (CLOs) and a presentation from the American Academy of Actuaries (Academy) on its modeling work and related factors for CLO debt tranches.
- Proposal to revise RBC charges for collateral loans reported on Schedule BA based on the type of underlying collateral.

The NAIC **discussed** the following guidance.

- SSAP Nos. 1, 5, 21, 26 and 43 and the Annual Statement Instructions to add a definition for commitments and consolidate and clarify disclosures by adding a new comprehensive contingent commitments disclosure.
- SSAP No. 48 to review several concepts to evaluate whether the guidance is clear and consistently applied.

Accounting highlights >>	
Modified coinsurance and funds withheld	The Statutory Accounting Principles Working Group (SAPWG) reexposed revisions to SSAP No. 1 to add disclosures about modified coinsurance (ModCo), funds withheld, and collateral assets. ¹ The revisions also add new reporting codes to the investment schedules in the Annual Statement. Comments are due May 1, 2026.
Commitments and contingencies	SAPWG discussed comments received on the proposed revisions to SSAP Nos. 1, 5, 21, 26 and 43 and the Annual Statement Instructions to add a definition for commitments and consolidate and clarify disclosures by adding a new comprehensive contingent commitments disclosure. ²
Sales leaseback clarifications	SAPWG adopted revisions to SSAP No. 22 to clarify that sale leasebacks with restrictions on access to the cash or assets received from the sale do not qualify for sale leaseback accounting and are accounted for by the seller using the financing method. ³ The revisions are effective for all contracts in effect on or after March 23, 2026.
Administrative services contracts	SAPWG adopted revisions to SSAP No. 47 to clarify disclosures about profitability of administrative services contracts (ASC). ⁴
SSAP No. 48 equity method investments	SAPWG discussed comments on the proposal to review several concepts in SSAP No. 48 to evaluate whether the guidance is clear and consistently applied as intended. ⁵
Disclosure of funding agreements	SAPWG exposed revisions to SSAP No. 52 to add new disclosures and a glossary for FABNs and other similar structures. The intent is for the disclosures to be effective for year-end 2026. ⁶ Comments are due May 1, 2026.

-
- ¹ SSAP No. 1, Accounting Policies, Risks & Uncertainties, and Other Disclosures
 - ² SSAP No. 5, Liabilities, Contingencies and Impairments of Assets; SSAP No. 21, Other Admitted Assets; SSAP No. 26, Bonds; SSAP No. 43, Asset-Backed Securities
 - ³ SSAP No. 22, Leases
 - ⁴ SSAP No. 47, Uninsured Plans
 - ⁵ SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies
 - ⁶ SSAP No. 52, Deposit-Type Contracts

Accounting highlights >>	
Separate account nonadmitted assets	SAPWG adopted revisions to SSAP No. 56 to add guidance about the admissibility of assets held at book value in separate accounts. ⁷ The revisions are effective January 1, 2027.
Interest maintenance reserve	<p>Reinsurance collateral</p> <p>SAPWG deferred action on the proposed revisions to SSAP No. 61 to clarify how IMR derecognized in a reinsurance transaction influences the collateral required for reinsurance credit for unauthorized or certified reinsurers.⁸ SAPWG stated that it will determine further action after a response from the Reinsurance Task Force.</p> <p>Proof of reinvestment</p> <p>SAPWG adopted a new statutory accounting concept and related template for the IMR proof of reinvestment requirement. However, proof of reinvestment will be included in the future exposure of SSAP No. 7.⁹</p> <p>IMR Ad Hoc Subgroup update</p> <p>SAPWG received an update about the activities of the IMR Ad Hoc Subgroup.</p>
Valuation of funds withheld	<p>SAPWG exposed revisions to SSAP No. 61 and Schedule S instructions in the Annual Statement to clarify that funds withheld liabilities are recorded at book adjusted carrying value (BACV) of the funds withheld assets.</p> <p>Comments are due May 1, 2026.</p>
Derivatives used for asset-liability management	<p>SAPWG exposed an issue paper and a proposed SSAP No. 109 for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for ALM.¹⁰ The proposed effective date of SSAP No. 109 is January 1, 2027.</p> <p>Comments are due May 1, 2026.</p>

⁷ SSAP No. 56, Separate Accounts

⁸ SSAP No. 61, Life, Deposit-Type and Accident and Health Reinsurance

⁹ SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve

¹⁰ SSAP No. 86, Derivatives; SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees; SSAP No. 109, Asset Liability Management (ALM) Derivatives

Accounting highlights >>

Nonadmittance of long-term repos

SAPWG **adopted** revisions to SSAP No. 103 to allow certain reverse repurchase agreements with original maturity dates over one year to be admitted, when the maturity date is within 365 days of the reporting date.¹¹

Principles-based bond definition – reporting clarifications

SAPWG **adopted** a recommendation to sponsor revisions to the Annual Statement Instructions to clarify the reporting of investments resulting from the implementation of the principles-based bond definition.

Actuarial highlights >>

Non-variable annuities

VM-22 framework

LATF heard comments about the proposals to:

- remove existing criteria for aggregation of deferred and payout annuities and add disclosure about the effect of aggregation; and
- apply VM-22 to deposit-type contracts.¹²

The VM-22 Subgroup reexposed a proposal for the reserve treatment for settlement options.

Comments are due May 7, 2026.

The VM-22 Subgroup exposed questions about applying VM-22 to guaranteed investment contracts (GICs), synthetic GICs, funding agreements, and other stable value contracts.

Comments are due June 8, 2026.

Retrospective application of VM-22

The VM-22 Subgroup exposed questions about retrospective application of VM-22 to inforce policies and a proposed approach developed by interested parties.

Comments are due June 22, 2026.

Reinvestment guardrails

Pension risk transfer

LATF exposed a proposal to modify the VM-22 reinvestment guardrail requirements for PRT.

Comments are due May 7, 2026.

¹¹ SSAP No. 103, Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

¹² VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities

Actuarial highlights >>	
	<p>Valuation manual reinvestment guardrails</p> <p>LATF adopted a proposal to update the reinvestment guardrails for VM-20, VM-21 and VM-22 to align them.¹³</p>
Risk-based capital >>	
RBC Model Governance Task Force	The RBC Model Governance Task Force heard a presentation summarizing comments received on the request to identify gaps and inconsistencies across the RBC framework.
Collateralized loan obligations RBC structure	<p>The Risk-Based Capital Investment Risk Evaluation (RBC IRE) Working Group reexposed a proposal to modify the RBC treatment of CLOs. Comments were due April 17, 2026.</p> <p>On a call before the Spring meeting, the RBC IRE Working Group exposed a presentation from the Academy on its modeling work and related factors for CLO debt tranches. Comments were due April 16, 2026.</p>
Collateral loan reporting	<p>The Life RBC Working Group reexposed a proposal to revise RBC charges for collateral loans reported on Schedule BA based on the type of underlying collateral, as previously adopted by SAPWG, and align RBC and AVR factors with the risk characteristics of those assets. Comments were due April 13, 2026.</p>
Other Developments >>	
AI systems evaluation tool	The Big Data and Artificial Intelligence Working Group heard an update about the Artificial Intelligence (AI) Systems Evaluation Tool pilot process.
Third-party data and model vendors regulatory framework	Before the Spring meeting, the Third-Party Data and Models Working Group exposed and discussed comments about the proposed risk-based regulatory framework for third-party data and model vendors.

¹³ VM-20, Requirements for Principle-Based Reserves for Life Products; VM-21, Requirements for Principle-Based Reserves for Variable Annuities

2

Accounting highlights

Modified coinsurance and funds withheld

Action: SAPWG reexposed revisions to SSAP No. 1 to add disclosures about ModCo, funds withheld and collateral assets. The revisions would also add new reporting codes to the investment schedules in the Annual Statement. Comments are due May 1, 2026.

The proposed revisions would align requirements in SSAP No.1 to changes previously adopted by the Blanks Working Group to the Annual Statement Instructions by requiring insurers to disclose:

- collateral assets received and reported on the balance sheet excluding those under securities lending and repurchase agreements;
- assets held under ModCo reinsurance agreements; and
- assets held under funds withheld reinsurance agreements.

The proposed revisions would also add new investment schedule reporting codes to identify these three categories of assets.

The reexposure:

- asks for comments about whether the restricted asset code should be retained, specifically if it provides valuable information to the regulators;
- indicates that it is possible for only a portion of the total reported investment to be subject to one or more of the restricted asset codes; and
- states that currently, if an asset is restricted without a dedicated code, insurers code it as “Other”.

Commitments and contingencies

SAPWG discussed comments received on the proposed revisions to SSAP Nos. 1, 5, 21, 26, and 43 and the Annual Statement Instructions to add a definition for commitments and consolidate and clarify disclosure by adding a new comprehensive contingent commitments disclosure.

Interested parties stated that the definitions in the proposed revisions need to be clarified and that there is complexity in the differences of definitions that may cause inconsistent application across the industry.

Background:

SAPWG stated these revisions are in response to a determination that existing instructions for disclosures of commitments and contingencies are unclear and incomplete. The goal of the changes is to provide a

Accounting highlights

comprehensive framework for these disclosures, enabling regulators to form a more complete assessment of an insurer's financial position.

Proposed revisions include:

- moving disclosure of non-derivative forward commitments from SSAP No. 1 to SSAP No. 5;
- adding a definition of commitments and contingent commitments to SSAP No. 5;
- updating SSAP No. 5 by:
 - clarifying disclosures for loss contingencies and impairments; and
 - requiring disclosure of all commitments and contingent commitments using a format in the Annual Statement Instructions.
- clarifying SSAP No. 21 to state that debt securities are reported at acquisition cost on the trade date and private placement non-bond debt securities are reported on the funding date; and
- adding disclosure to SSAP No. 21, 26 and 43 for investment commitments for each reported investment, including capital calls, delayed draws, on-demand drawdowns or unfunded commitments.

The revisions would also add Annual Statement disclosures.

Next steps. SAPWG requested feedback on the impact to RBC for contingencies and commitments and directed NAIC staff to (1) work with industry on the proposal and (2) send a referral to the Capital Adequacy Task Force for input about elements to be included in the RBC formula.

Sales leaseback clarifications

Action. SAPWG adopted revisions to SSAP No. 22 to clarify that sale leasebacks with restrictions on access to cash or other assets received from the sale do not qualify for sale leaseback accounting and are accounted for by the seller using the financing method.

The revisions state that transactions do not qualify for sale-leaseback accounting and are recorded as financing arrangements when the cash or assets received by the seller are:

- restricted from being accessed or used to satisfy policyholder obligations until the repayment of the lease; or
- would be forfeited to the lessor if the lessee breaches the terms of the lease or terminates the contract.

Interested parties stated that the revisions:

- are helpful and remove ambiguity; and
- create a new category of restricted assets within SSAP No. 22 that fails the availability test, which helps to distinguish the types of pledged

assets in leasing arrangements when determining if a lack of control or potential for forfeiture risk exists.

Interested parties also suggested adding a reference to a lease breach to further clarify support of the concept of availability, which SAPWG included in the adopted revisions.

Administrative services contracts

Action: SAPWG adopted revisions to SSAP No. 47 to clarify disclosures about profitability of ASCs.

The revisions clarify disclosures for plans for which the insurer serves as an ASC administrator to include:

- other amounts received by the insurer, including interest paid to the insurer or received from ASC plans; and
 - other amounts paid by the insurer, including interest paid to or on behalf of the ASC plans.
-

SSAP No. 48 equity method investments

SAPWG discussed comments on the proposal to review several concepts in SSAP No. 48 to evaluate whether the guidance is clear and consistently applied as intended.

Interested parties requested that the comment period be extended because of the complexity of the topic and the extent of system changes the proposed changes could have on insurers' reporting systems.

Background:

The proposal includes discussion of topics including:

- timing for recognizing equity value changes, requesting feedback about:
 - whether clarification is needed about the intent for audited support before recognition of any equity changes or clarification of industry practice when changes are reported when known, with a true-up to audited financials, when available; and
 - addition of electronic columns to identify the date of the last audited financial statement, when that information was received and the audited equity value at that time.
- application of goodwill guidance and goodwill disclosures, specifically:
 - when an investment is acquired at a discount, with negative goodwill recognized, and if information should be added to Schedule BA about investments purchased at a premium or a discount and if there is unamortized goodwill;
 - whether the goodwill from SSAP No. 48 acquisitions should be captured with the other goodwill disclosures, and whether, without

such inclusion, the goodwill from these acquisitions is not being subject to admittance limitations or being used to calculate the adjusted capital and surplus for other thresholds (e.g. IMR admittance); and

- replacing the term ‘basis difference’ with ‘goodwill’ to ensure consistency with statutory accounting terminology.
- negative investment income, specifically its cause, and information about the cause of unrealized losses, especially when book adjusted carrying value is greater than original cost;
- use of related party codes, with identified instances when an insurer has majority ownership but does identify that the investment reflects a related party relationship; and
- clarity of guidance specifying that the Schedule BA column of ‘date originally acquired’ should not be updated to reflect additional interests or fundings towards an existing investment.

Next steps. SAPWG directed NAIC staff to work with the industry, by forming a small group, to develop proposed revisions that will be reviewed at a future meeting.

Disclosure of funding agreements

Action. SAPWG exposed revisions to SSAP No. 52 to add new disclosures and a glossary for FABNs and other similar structures. The intent is for the disclosures to be effective for year-end 2026. Comments are due May 1, 2026.

The proposed revisions would require insurers to disclose information about funding agreements that back special purpose vehicle (SPV) issuances, including:

- the balance of funding agreements, before reinsurance by type of issuance (as detailed below) that includes a put feature or embedded option, and by type of issuance where the terms are different from the corresponding SPV issuance;
- the BACV of collateral pledged by the insurer by type of transaction including:
 - funding agreement backed notes;
 - funding agreement backed commercial paper;
 - funding agreement backed repurchase agreements;
 - funding agreement backed loans;
 - funding agreements issued into municipal prepay structures; and
 - other funding agreements backing SPV issuances.
- a narrative description of the different terms under the funding agreement when they are different from the terms of the corresponding SPV issuance;

Accounting highlights

- the maturity distribution of the funding agreements, separated by fixed and floating interest rates before execution of any interest rate swaps; and
- currency denominations for SPV issuances backed by funding agreements issued in a non-US currency, and whether all foreign currency exposure related to each currency denomination is hedged.

The proposal would also add a glossary to SSAP No. 52 that defines different types of funding agreement-backed structures, including those that back commercial paper, repurchase agreements, and loans.

SAPWG stated that the proposed revisions are in response to a referral from the Macroprudential Working Group, that requested the disclosures to better monitor financial stability and identify potential risks and transmission channels between the industry and the capital markets.

Separate account nonadmitted assets

Action: SAPWG adopted revisions to SSAP No. 56 to add guidance about admissibility of assets held at book value in separate accounts. The revisions are effective January 1, 2027.

The revisions state that:

- assets that are not admissible in the general account should not be transferred to the separate account; and
- assets reported at book value comply with:
 - admissibility provisions of SSAP No. 4;¹⁴
 - applicable state investment limitations; and
 - other statutory provisions included in the Accounting Practices and Procedures Manual.

These changes require net negative IMR that exceeds the admittance threshold to be reported as a nonadmitted asset, with future admittance permitted when the insurer goes below the admittance limit.

SAPWG directed NAIC staff to sponsor a blanks proposal to include the concept of nonadmitted assets within the separate account Annual Statement Instructions.

Interest maintenance reserve

Reinsurance collateral

SAPWG deferred action on the proposed revisions to SSAP No. 61 to clarify how IMR derecognized in a reinsurance transaction influences the collateral required for a reinsurance credit for unauthorized or certified reinsurers.

¹⁴ SSAP No. 4, Assets and Nonadmitted Assets

SAPWG stated that it will determine further action after a response from the Reinsurance Task Force.

Interested parties recommended the symmetrical approach that captures both positive and negative IMR in the determination of collateral requirements to obtain credit for reinsurance. They stated that this approach supports the use of reinsurance as a risk-management tool and would create more capital stability and competitive pricing for consumers.

The Academy proposed an alternative approach that would:

- allow negative IMR to be included in the collateral calculation;
- require a cedent's actuary to demonstrate through asset adequacy analysis that the collateral level is sufficient to mature the reinsurer's liabilities under moderately adverse scenarios;
- floor the collateral at the amount of policy reserves if no testing is performed; and
- reduce the reserve credit if the posted collateral is less than the amount determined by the cedent's actuarial analysis.

Proof of reinvestment

Action. SAPWG adopted a new statutory accounting concept and related template for the IMR proof of reinvestment requirement. The proof of reinvestment will be included in a future exposure of revisions to SSAP No. 7.

Proof of reinvestment requires an insurer to pass two tests to record a new net negative IMR balance or increase the amount of net negative IMR from the prior year.

Test 1: Reinvestment Test – verifies that the acquisition of fixed-income investments (bonds and mortgage loans) is greater than the proceeds from fixed-income sales and investable premium by performing the following calculation:

- calculate the cost of fixed-income investments purchased;
- subtract the total proceeds from fixed-income investments sold; and
- subtract the investable premium (adjusted for certain balances).

If the final value is positive, the insurer passes this test. Insurers failing the proof are permitted to admit IMR current-year realized losses that offset current-year realized gains but must recognize any additional realized losses as an immediate capital loss in surplus rather than deferring them through IMR.

Test 2: Weighted Average Yield Test – validates that the yield on newly acquired fixed-income investments is higher than the yield on investments sold. To complete this test, insurers compare the weighted average yield of investments purchased during the year to the weighted average yield of investments sold during the year. If the yield on purchases exceeds the yield on sales (the difference is positive), the insurer passes this test.

The new statutory accounting concept requires the proof to be performed separately for the general account and each separate account.

SAPWG stated insurers are not required to complete the IMR reinvestment template. However, if the test is not completed, insurers will not be able to use realized losses from qualifying fixed income investment sales to increase a net negative IMR balance.

IMR Ad Hoc Subgroup update

SAPWG received an update on the activities of the IMR Ad Hoc Subgroup. The Ad Hoc Subgroup expects that the revised SSAP, a draft issue paper, and proposed reporting revisions will be presented for exposure before the Summer meeting.

Valuation of funds withheld

Action. SAPWG exposed revisions to SSAP No. 61 and Schedule S instructions in the Annual Statement to clarify that funds withheld liabilities are recorded at BACV of the funds withheld assets. Comments are due May 1, 2026.

The proposed revisions would add a statement that the funds withheld liability is recorded at the BACV of the assets held by the ceding entity to the extent that such funds were:

- included as a part of the total assets; and
- not offset by a directly related credit on the asset page.

SAPWG stated that the proposed revisions are in response to inconsistent guidance for valuing the funds withheld liability in life or health reinsurance agreements. SAPWG stated that the Annual Statement Instructions do not reference an accounting basis for the funds withheld liability, however Schedule S – Part 4 instructions, state that securities held on deposit or held in a trust fund are valued at fair market value. The instructions do not clarify whether funds withheld are included in this guidance.

Derivatives used for asset-liability management

Action. SAPWG exposed an issue paper and a proposed SSAP No. 109 for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for ALM. The proposed effective date of SSAP No. 109 is January 1, 2027. Comments are due May 1, 2026.

The proposed SSAP provides special accounting for insurers to use a form of macro-hedging in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities, including the entire book of business, pursuant to a Clearly Defined Hedging Strategy (CDHS). To use the guidance within the proposed SSAP No. 109, the insurers would be required to:

Accounting highlights

- obtain approval from the domiciliary state regulator allowing this treatment; and
- provide certification by a financial officer of the insurer that the hedging strategy meets the definition of a CDHS and that the CDHS is the hedging strategy being used by the insurer in its actual day-to-day risk mitigation efforts.

Under SSAP No. 109, insurers would:

- measure highly effective hedging instruments at amortized cost with excluded derivative components measured at fair value and changes recognized as unrealized gains or losses;
- recognize:
 - a deferred asset or a deferred liability when a derivative terminates or is rebalanced while part of a highly effective program;
 - an asset or liability offset by a deferred asset or a deferred liability equal to the fair value of the derivative at the time of de-designation or rebalancing;
- discontinue the amortized cost treatment for derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective and record them at fair value, with the change in fair value recognized as an unrealized gain or loss;
- allocate an amount equal to the net deferred asset and deferred liability (the net amount from all hedging strategies or programs included in this guidance) from unassigned funds to special surplus;
- amortize all derivative deferred assets and liabilities on a straight-line basis for a period equal to the weighted average life of the hedged liability portfolio not to exceed 10 years; and
- allow all deferred losses recognized to be admitted.

The proposed SSAP No. 109 also includes:

- documentation requirements of a CDHS;
- an assessment of hedge effectiveness;
- disclosure requirements; and
- a transition provision that allows insurers with open derivatives in an existing approved program that qualifies as a highly effective hedge to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and liabilities and begin amortization over a 10-year period.

SAPWG requested comments on the:

- proposed transition guidance;

Accounting highlights

- reporting on Schedule DB and whether new reporting lines should be added to Schedule DB or if a code should be added to the existing 'hedging other' reporting lines; and
 - admittance of deferred losses and whether additional disclosures should be required to provide regulators with aggregated amounts.
-

Nonadmittance of long-term repos

Action. SAPWG adopted revisions to SSAP No. 103 to allow certain reverse repurchase agreements with maturity dates over one year to be admitted.

The revisions to SSAP No. 103:

- allow short term reverse repurchase agreements with maturities of 365 days or less to be admitted assets;
- state that long-term reverse repurchase agreements, with maturities greater than 365 days, are:
 - included on Schedule BA as an 'any other asset' and nonadmitted;
 - prohibited from moving to Schedule DA when remaining maturity is within 365 days of the reporting period date;
 - allowed to be admitted when the maturity is within 365 days of the reporting period date and the fair value of the acquired asset is 102% or more of the original purchase price; and
 - nonadmitted if renewed for a period exceeding 365 days.

SSAP No. 103 continues to require long-term reverse repurchase agreements to be nonadmitted.

Interested parties responded to a regulator question by stating that they were not aware of any long-term repurchase agreements that included puttable provisions. They also recommended adding an affirmative statement that long-term repurchase agreements can continue to be admitted. SAPWG decided that current guidance in SSAP No. 103 is clear about an insurer's ability to admit these instruments. However, it said that it will consider additional modifications during the broad review of SSAP No. 103 guidance.

Principles-based bond definition – reporting clarifications

Action. SAPWG adopted a recommendation to sponsor revisions to the Annual Statement Instructions to clarify the reporting of investments resulting from the implementation of the principles-based bond definition.

The revisions to the Annual Statement Instructions state that:

- contractual payment due at the legal maturity date is the final principal payment and interest to be paid at maturity;

Accounting highlights

- the amount reported at acquisition is not revised unless additional lots are purchased or if lots are sold; and
 - origination date information should be used when available, however, acquisition date information may be used if an investment was acquired on the secondary market and origination date information is not available.
-

3

Actuarial highlights

Non-variable annuities

VM-22 framework

LATF heard comments about a proposal to remove the existing criteria for aggregation of deferred and payout annuities and add disclosure about the effect of aggregation.

Interested parties supported removing the criteria, stating that insurers commonly manage deferred and payout annuity blocks together and emphasizing the need for greater flexibility in aggregation methods. The American Academy of Actuaries (Academy) requested clarification about when the aggregation should occur, whether before or after the calculation of the scenario reserve, and proposed to:

- allow aggregation when an insurer jointly manages the investment decisions and risks for the different product blocks;
- add language from VM-20 about the creation of model segments to VM-22; and
- add disclosures to VM-31 about the reserve for each category before and after aggregation.¹⁵

Regulators questioned whether additional language from VM-20 is needed stating that existing asset modeling requirements may already provide sufficient safeguards.

Background. VM-22 permits aggregation between the deferred and payout reserving categories when certain requirements are met. The proposal would remove criteria for the aggregation of payout and deferred annuities in VM-22 and add a disclosure in VM-31 for the aggregation benefit.

Next step. The VM-22 Subgroup will have a call to determine action for this proposal.

Action. The VM-22 Subgroup reexposed a proposal for the reserve treatment for settlement options. Comments are due May 7, 2026.

The proposal would allow insurers to elect to reserve for settlement options on life insurance or annuity contracts that are not subject to VM-20, VM-21, or VM-22 requirements. The election would be based on the minimum standard valuation requirements applicable to the contract as originally issued. Insurers would also be required to notify the domiciliary commissioner of this election and ensure that the regulator does not disapprove. The proposal would require election to be used consistently for

¹⁵ VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

all contracts in scope and prohibit the insurer from reverting back to using VM-22 principles-based reserving (PBR) in the future.

LATF heard comments about the previously exposed proposal for settlement options. Interested parties recommended allowing insurers to apply the valuation election at a targeted administrative block level rather than requiring a uniform application across all contracts. They stated that this would provide operational flexibility for immaterial or separately administered blocks, that are often not integrated with an insurer's broader annuity valuation systems. They requested clarity about how VM-22 would be applied to settlement options on contracts issued prior to January 1, 2017.

LATF also heard comments about the proposal to apply VM-22 to deposit-type contracts. The proposal clarifies that some deposit-type contracts are in the scope of VM-22. Interested parties supported the proposal.

Next steps. The VM-22 Subgroup will hold a call to consider adoption of the proposal.

Action. The VM-22 Subgroup exposed questions about applying VM-22 to GICs, synthetic GICs, funding agreements, and other stable value contracts. Comments are due June 8, 2026.

The questions in the proposal ask about:

- specific product design or risk characteristics that may be listed as criteria that could warrant an exclusion from the scope of VM-22;
- how interest rate risk, credit spread risk, reinvestment risk, withdrawal risk, and tail scenarios about book value and market value differences would be addressed if these products continue to be excluded from VM-22;
- anticipated size and scope of costs for implementing VM-22 requirements for these products and whether the benefits of requiring VM-22 would outweigh the cost; and
- potential effects on reserve levels if these products are scoped in.

At the Spring meeting, LATF heard comments about inclusion of GICs, funding agreements and stable value contracts in VM-22.

The Academy stated that:

- the inclusion of these products in VM-22 aligns with a principles-based framework, and the risks associated with these products are mostly related to credit and asset-liability modeling, which is consistent with subset of risks included within VM-22; and
- if an insurer wants to retain their current, simpler reserving methodology, assuming there are limited risks with the liabilities, the insurer could demonstrate that with the exclusion tests and revert to current reserving methodologies.

The Academy also outlined potential reasons to exclude these products from VM-22 stating that:

- these products tend to have a lower risk profile than products currently in the scope of VM-22 because of their lack of mortality risk, shorter duration and limited optionality; and
- synthetic GICs are subject to their own framework for asset maintenance requirements and asset adequacy testing under Model Regulation 695.

Some interested parties expressed support to apply VM-22 requirements to funding agreements but raised reservations about mandatory application, particularly to synthetic GICs because of the distinct structural features of those arrangements and the differing economic treatment of assets and liabilities. They recommended a default position of excluding these products from VM-22, with an option for insurers to apply VM-22 upon notification to their domestic regulator.

Regulators stated that they need to better understand the implementation burden before moving forward and expressed a preference for requiring insurers to use an exclusion test to demonstrate that the products should be excluded, rather than excluding them from VM-22 requirements from the start.

Retrospective application of VM-22

Action. The VM-22 Subgroup exposed questions about retrospective application of VM-22 to inforce policies and a proposed approach developed by interested parties. Comments are due June 22, 2026.

The exposure poses questions about insurers having the option to elect the VM-22 requirements instead of the pre-PBR Commissioners Annuity Reserve Valuation Method (CARVM) requirements for a group of contracts, including:

- What are types of potential evaluation criteria for explaining the reserve impact and drivers, and how frequently should these be provided?
- Should there be a one-time option to implement or could insurers implement at future points?
- How should testing be designed to address aggregation impacts on business already valued under VM-22?
- What requirements would help address concerns of intentionally allocating assets to achieve lower reserves when a portfolio supports both VM-22 business and pre-PBR CARVM business?
- How can AG 53-type asset documentation¹⁶ be used in disclosures and evaluation criteria?

¹⁶ AG 53, Application of the valuation manual for testing the adequacy of life insurer reserves.

- When and how could the Valuation Analysis Working Group (VAWG) be involved in the review process?

The exposed approach developed by interested parties would allow the election of VM-22 after notification to the domiciliary and their review (non-disapproval). The insurer would be allowed to elect to apply VM-22 retrospectively at a policy form level and supporting analysis may be performed in aggregate, where appropriate. Once an election to move to VM-22 has been made and not rejected, the election cannot be reversed. The approach also includes evaluation criteria for VM-22 election and VM-22 implementation timeline.

LATF heard comments on the previously exposed options and related questions about applying VM-22 to enforce policies.

The Academy outlined the benefits of mandatory retrospective application of VM-22 that included:

- more annuity reserves being valued under a principle-based, presumably the preferable approach;
- increased consistency in valuation that would increase comparability;
- broader adoption of VM-22 would limit opportunities to allocate assets in a manner that minimizes reserves;
- possible incentive for stronger asset-liability matching; and
- possible increase transparency into asset and liability risks in covered blocks due to requirements of VM-31 reports.

However, the Academy also stated drawbacks to mandatory application included that:

- under the additional standard projection amount calculation, assumptions may not be appropriate for all blocks of business that would be covered;
- VM-22 may have very little effect on reserves for certain small or older blocks of business; and
- there may not be enough information to determine whether VM-22 works as intended for certain blocks of business, or whether enough information was gathered to understand the impacts on blocks of business across different economic environments.

The Academy also acknowledged that there are both benefits and drawbacks to optional application.

Interested parties expressed support for an optional retrospective application at the insurer's election. They stated that mandatory implementation would be impracticable and unwarranted because:

- material elements of the VM-22 framework have yet to be determined;

- the framework will likely change before its mandatory effective date for new business in 2029; and
- many insurers are in the early stages of development of their VM-22 models, and until those models can be run and tested, the effect on in-force business cannot be adequately assessed.

One regulator stated a concern about a potential reserve decrease, suggesting a role for VAWG to participate in the review if the decrease is above a certain threshold. Some regulator raised the importance of developing an evaluation criteria for insurers electing to apply VM-22 and whether that evaluation should be performed once or on a reoccurring basis.

Reinvestment guardrails

Pension risk transfer

Action. LATF exposed a proposal to modify the VM-22 reinvestment guardrail requirements for PRT. Comments are due May 7, 2026.

The proposed revisions to VM-22 would:

- allow PRT annuities to use different spread, default and investment strategy assumptions than other products;
- apply an additional illiquidity premium of up to 50 basis points (bps) to the prescribed spreads;
- reflect the prescribed spread and defaults in VM-20 for 100% PBR credit rating Baa2/BBB plus a spread increase of 50bps to reflect an additional liquidity premium; and
- add a disclosure requirement to VM-31 for the actuary to provide support for any illiquidity premium used.

A member of LATF stated that the proposal is being brought forward to address industry concern with the prescribed investment guidelines within the framework that it believes embeds 'non-economic' conservatism and will inflate reserve requirements beyond an appropriate level of conservatism. The member expressed concerns that the industry will continue to pursue measures such as asset-intensive reinsurance arrangements to address this conservatism, which creates a potential reduction in transparency and in assets available for policyholders. The proposal intends to address this concern by aligning reserve calculations more closely with the economic realities of PRT annuities. Some regulators continued to express concern about modifying the investment guardrail only for PRT. However, others acknowledged that this proposal could be the basis to determine if a similar approach is appropriate for other types of business.

Valuation manual reinvestment guardrails

Action. LATF adopted a proposal to update the reinvestment guardrails for VM-20, VM-21 and VM-22 to align them.

The reinvestment guardrail uses a credit quality blend of:

Actuarial highlights

- 5% Treasury;
 - 15% PBR credit rating 3 (Aa2/AA);
 - 40% PBR credit rating 6 (A2/A); and
 - 40% PBR credit rating 9 (Baa2/BBB).
-

4

Risk-based capital

RBC Model Governance Task Force

The RBC Model Governance Task Force heard a presentation summarizing comments received on the request to identify gaps and inconsistencies across the RBC framework. The request asked about:

- gaps in a formula or all formulas resulting in material risks not captured; or
- inconsistencies across components within a formula that run counter to RBC's purpose to identify potentially weakly capitalized insurers or meaningfully limit regulators' assessment of the solvency risk for all or an identifiable segment of insurers.

The presentation summarized 12 comment letters, with themes around:

- governance, model monitoring, development and update processes;
- differences across formulas;
- gaps and process inconsistencies; and
- links to the broader framework.

Interested party comments included:

- statement that the gap analysis process is a useful tool for identifying inconsistencies in the RBC framework, provided it remains focused on material solvency relevance;
- support for strengthening governance mechanisms and anchoring any gap analysis to the established RBC Principles and Investment Framework;
- observation that the fundamental differences between lines of business are appropriately reflected in the respective RBC formulas and that these inconsistencies are often deliberately calibrated;
- recommendation to review the interaction between RBC charges and statutory accounting to eliminate distortions where economically identical exposures receive different treatments; and
- a view that it is important for regulators to consider all solvency tools and to maintain a broad, holistic view when contemplating future adjustments to RBC, recognizing the interconnectedness and co-dependencies within the overall framework.

The presentation also highlighted inconsistencies and potential gaps across the life, property and casualty, and health formulas, primarily related to investments.

Next steps. The RBC Model Governance Task Force will discuss the identified gaps and inconsistencies on future calls.

Collateralized loan obligations RBC structure

Action. The RBC IRE Working Group reexposed a proposal to modify the RBC treatment of CLOs. Comments were due April 17, 2026.

This proposal would update the RBC structure to be more granular and create two categories, (1) CLOs and (2) all other long-term bonds.

The expanded presentation of bonds is a result of the work of the Risk-Based Capital IRE Working Group to evaluate the appropriate RBC treatment of Asset-Backed Securities, including CLOs, collateralized fund obligations or other similar securities carrying similar types of tail risk.

Interested parties recommended that columns be included to allow for differentiation of CLO factors based on the types of underlying loans (1) broadly syndicated bank loans CLOs (2) middle market CLOs (3) non-CLOs. They also recommended that columns be included to differentiate the CLO factors based on tranche thickness (the amount of loss a tranche can withstand before being wiped out).

Action: On a call before the Spring meeting, the RBC IRE Working Group exposed a presentation from the Academy on its modeling work and related factors for CLO debt tranches. Comments were due April 16, 2026.

The presentation outlined results of the Academy's analysis of all U.S. broadly syndicated loan CLOs. It stated that the modeling revealed that for CLOs rated BBB- and lower, there is a significant difference in risk between tranches with varying 'thickness'. A 4% tranche thickness was identified as a critical threshold to differentiate between higher-risk and lower-risk tranches within the same credit rating. The Academy discussed two options for CLO factors:

Option 1: Use single set of factors based only on credit ratings:

Option 2: Apply different, bifurcated factors for tranches that were greater than and less than 4%.

The regulators had differing views about which option may be best. Some regulators stated that the Academy research demonstrated that tranche thickness is a significant driver of risk for CLOs. However, others expressed concerns with Option 2 including that:

- creating a sharp dividing line at 4% could create a cliff resulting in a CLO tranche with a thickness of 3.99% receiving a significantly higher capital charge than a tranche with a 4.01% thickness, even though their actual risk profiles are nearly identical;
- CLO managers and arrangers could be incentivized to structure new deals so that the tranches are just slightly above the 4% thickness threshold; and

- tranche's thickness is not a static number and can change over the life of the CLO as the underlying loans pay down.

At the Spring meeting, the Academy presented their analysis in response to questions raised about sensitivities of choosing 4% tranche thickness as a cutoff point and distribution of risk within the tail. They stated that:

- increasing the cut-off to greater than 4.25% may reduce thick Baa3 charges by 39 basis points but increase the thin tranche charge by 153 bps; and
- the 4% cut-off has been selected based on observing the distribution of tranche thickness for Baa3, but a slightly higher cut-off point may be appropriate if the lower-rated tranches were also considered when choosing the cut-off.

Interested parties questioned if the structure presented by the Academy would be directly relevant to use for middle market CLOs since their analysis included only BSL CLOs. The Academy acknowledged that middle market CLOs are different from BSL CLOs and corporate bonds and there are no specific factors that directly relate to middle market CLOs and thus may need to be based on regulator judgment about which factors to apply.

Collateral loan reporting

Action. The Life RBC Working Group reexposed a proposal to revise RBC charges for collateral loans reported on Schedule BA based on the type of underlying collateral, as previously adopted by SAPWG, and align RBC and AVR factors with the risk characteristics of those assets. Comments were due April 13, 2026.

The exposed proposal is an alternative to a previously exposed option that would have applied a flat 20% reduction to recognize the lack of loan-to-value information in the statutory filings. The proposal was intended to recognize certain risk-mitigating features, while maintaining a simple and administrable approach, not differentiating based on levels of overcollateralization, variations in loan-to-value, or different statutory requirements across states.

Interested parties supported the Working Group's objective of refining RBC charges to better reflect the risk characteristics of the underlying collateral while avoiding unnecessary complexity, including:

- assigning a base look-through RBC factor of 0.30 for collateral loans backed by investments in joint ventures, partnerships or limited liability companies would be consistent with the factor for Schedule BA unaffiliated common stock; and
- retaining an RBC factor of 0.068 for all other collateral loans.

Interested parties also recommended:

Risk-based capital

- adding a five-band framework that would apply an adjustment factor to the base look-through RBC factor based on the level of overcollateralization;
- making the look-through treatment permanent for collateral loans backed by mortgage loans by retaining the 3% factor only as a fallback for rare cases where loan-level data is unavailable.

Some regulators stated that the recommendations proposed by interested parties were reasonable. However, they had questions about how regulators could assess the appropriateness of the valuations used in the loan-to-value (LTV) calculations, including whether such values are subject to audit.

The Life RBC Working Group discussed a potential effective date for the revised factors, considering either December 31, 2026 or December 31, 2027. Interested parties recommended an effective date of December 31, 2027, to provide insurers and regulators sufficient time to implement the new framework, update systems, and make necessary portfolio adjustments. Many regulators supported the 2027 effective date; however some thought these factors could be adopted for 2026 year-end.

As a result of this discussion, the exposed recommendations from interested parties also included questions from the Working Group about:

- solutions or edits to the proposal to address regulators' concerns about the fair value of assets with unobservable inputs;
 - whether there should be a lower reduction to the look-through approach if the fair value of the collateral cannot be observed in the market; and.
 - whether an alternative tiering structure is appropriate such that 80% LTV is at the mid-point of the tier.
-

5

Other developments

AI systems evaluation tool

The Big Data and Artificial Intelligence Working Group heard an update about the AI Systems Evaluation Tool pilot process.

The pilot process started in March 2026 and is planned to run through September 2026. It includes twelve states, most of which selected between two and ten insurers to participate. These states have notified or are in the process of notifying their domestic insurers, primarily life and property and casualty, that were selected for the pilot. Participating states are using the tool to support market conduct exams, financial exams, and financial analyses contexts, and as part of a more general regulatory inquiry and are focused on how insurers are using AI across their business operations to assess whether their governance practices may be effective in managing potential risks.

Background. The Big Data and Artificial Intelligence Working Group developed the AI Systems Evaluation tool to help regulators understand how insurers are using artificial intelligence. It is designed to supplement existing examination procedures and includes optional exhibits that allow regulators to determine the extent of AI systems usage for an insurer and whether additional analysis is needed focusing on financial and consumer risk. The pilot program was developed to test the tool's practical application and generate insights to:

- determine whether the tool helps:
 - insurers clearly explain their AI governance systems to regulators; and
 - regulators better understand how insurers use AI systems and how those insurers apply standard governance practices;
- support the ongoing improvement and development of the tool;
- help create long-term recommendations for market conduct and financial risk assessment review processes; and
- identify what additional regulator training may be needed in the future.

Next steps. After the conclusion of the pilot, the Working Group will update the tool based on feedback received and will consider the updated tool for adoption at the Fall 2026 meeting.

Third-party data and model vendors regulatory framework

Before the Spring meeting, the Third-Party Data and Models Working Group exposed and discussed comments about the proposed risk-based regulatory framework for third-party data and model vendors.

The purpose of risk-based regulatory framework is to provide regulators with access to third-party data and models used by insurers in functions with direct consumer impact and to establish governance standards for model and data integrity, consumer protection, and ongoing monitoring.

The framework scales with the materiality, complexity, and consumer impact of the third party's role where the use of third-party data and models in insurance functions with direct consumer may require more extensive review and documentation. Under the proposal, all vendors would be required to register with state insurance departments. To receive registered status, the third party would provide information about their governance program and agree to provide regulators with access to their data and models including:

- model documentation;
- input and output specifications;
- validation, performance and any fairness or bias testing results;
- change logs and audit trails; and
- other information reasonably necessary for regulatory evaluation.

Interested parties expressed concerns about the proposal's including:

- mandatory vendor registration, stating that it could stifle innovation, reduce competition, and create significant operational burdens;
- scope and definition that they viewed as too broad;
- confidentiality protections provided by states to third parties because it could discourage participation; and
- regulatory authority of individual states to regulate vendors and enforceability.

Interested parties advocated for a:

- voluntary, risk-based registration process that focuses on outcomes rather than processes;
- narrowing the scope of regulation to model vendors, excluding data vendors, and limiting to specific functions like pricing and underwriting; and
- consistent nationwide approach for the filing process.

Some regulators and consumer advocates supported the current draft of the framework including mandatory registration and broad scope. Regulators clarified that the framework is not intended to disturb the marketplace and will take the comments into consideration. One regulator also suggested that a chief actuary or chief data scientist would be more appropriate to provide an attestation than a CEO.

Next steps. The Third-Party Data and Models Working Group will continue discussions about this topic on its calls.

KPMG Financial Reporting View

Delivering guidance and insights, KPMG Financial Reporting View is ready to inform your decision making. Stay up to date with us.



Defining Issues

Our collection of newsletters with insights and news about financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.



Handbooks and Hot Topics

Our discussion and analysis of accounting topics – from short Hot Topics that deal with a topical issue, to our in-depth guides covering a broad area of accounting.



CPE opportunities

Register for live discussions of topical accounting and financial reporting issues. CPE-eligible replays also available.



Financial Reporting Podcasts

Tune in to hear KPMG professionals discuss major accounting and financial reporting developments.



Visit frv.kpmg.us
and sign up for news and insights

Acknowledgments

This edition of Issues & Trends has been produced by the insurance practice of the Department of Professional Practice of KPMG LLP in the United States.

We would like to acknowledge the efforts of the main contributors to this Issues & Trends.

[Kelsey Anderson](#)

[Michael Beck](#)

[Olga Roberts](#)

[Leigh Wilson Gasparovic](#)

KPMG Financial Reporting View

frv.kpmg.us

Learn about us:



kpmg.com

Legal—The descriptive and summary statements in this newsletter are based on participating in conference meetings and conference calls and are not necessarily applicable to the specific circumstances of individual companies. They are not intended to be a substitute for the final texts of the relevant documents or the official minutes of the NAIC proceedings. Companies should consult the texts of any requirements they apply, the official minutes of the NAIC meetings, and seek the advice of their accounting and legal advisors.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.