KPMG

NAIC Fall 2025 Meeting

Issues & Trends

Latest actions include adoption of revisions to risk transfer analysis for contracts with interdependent features, including combination coinsurance and yearly renewable term contracts and new disclosures for private securities.

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Meeting highlights

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

- SSAP Nos. 2, 21, 26 and 43 to add (1) consistent disclosures in the SSAPs for debt securities, and (2) new disclosures for residual interests, including whether the insurer is using the allowable earned yield (AEY) method.
- SSAP Nos. 2, 21, 26, 30, 32 and 43 to add an aggregate disclosure of key investment information by type of private placement investment and identify private placements in the investment schedules.
- SSAP No. 37 to expand its scope to include mortgage loans acquired through qualifying investments in a statutory trust.
- SSAP No. 61 and the Question and Answer (Q&A) of Appendix A-791 to add guidance on risk transfer for contracts with interdependent features, including combination coinsurance and yearly renewable term (YRT) reinsurance contracts.
- Annual Statement Instructions to eliminate the concept of investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries), including removing investment subsidiaries from Schedule D-6-1 and asset valuation reserve (AVR) instructions.

The NAIC **exposed** revisions to 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. 56 to add guidance about admissibility of assets held at book value in separate accounts.
- SSAP No. 61 to clarify how interest maintenance reserve (IMR) derecognized in a reinsurance transaction influences the collateral required for reinsurance credit for unauthorized or certified reinsurers.
- A new statutory accounting concept and related template for an IMR proof of reinvestment requirement to support deferral of realized loss through negative IMR.

The NAIC **discussed** the following guidance.

- Directed NAIC staff to prepare an issue paper and a SSAP 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).

Accounting highlights >>	
Modified coinsurance and funds withheld	The Statutory Accounting Principles Working Group (SAPWG) exposed 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 February 13, 2026.
Commitments and contingencies	SAPWG exposed 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] Comments are due February 13, 2026.
Debt security and residual interest disclosures	SAPWG adopted revisions to SSAP Nos. 2, 21, 26, and 43 to add (1) consistent disclosures in the SSAPs for debt securities, and (2) new disclosures for residual interests, including whether the insurer is using the AEY method.[3] The revisions are effective December 31, 2026.
Private placement securities	SAPWG adopted revisions to SSAP Nos. 2, 21, 26, 30, 32 and 43 to add an aggregate disclosure of key investment information by type of private placement investment and identify private placements in the investment schedules.[4] The revisions are effective December 31, 2026.
Sales leaseback clarifications	SAPWG reexposed 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.[5] The revisions would be effective December 31, 2026. Comments are due February 13, 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. 2, Cash, Cash Equivalents, Drafts, and Short-Term Investments

4 SSAP No. 30, Unaffiliated Common Stock; SSAP No. 32, Preferred Stock

5 SSAP No. 22, Leases

Accounting highlights >>	
Residential mortgage loans held in statutory trusts	SAPWG adopted revisions to SSAP No. 37 to expand its scope to include mortgage loans acquired through qualifying investments in a statutory trust.[6] The revisions are effective January 1, 2027, with early adoption permitted.
Administrative services contracts	SAPWG exposed revisions to SSAP No. 47 to clarify disclosures about profitability for administrative services contracts (ASC).[7] Comments are due February 13, 2026.
SSAP No. 48 equity method investments	SAPWG exposed a proposal to review several concepts in SSAP No. 48 such that the guidance is clear and is consistently applied as intended.[8] Comments are due February 13, 2026.
Separate account nonadmitted assets	SAPWG exposed revisions to SSAP No. 56 to add guidance about the admissibility of assets held at book value in separate accounts.[9] The revisions would also update the separate account Annual Statement Instructions and would be effective January 1, 2027. Comments are due February 13, 2026.
Risk transfer analysis for reinsurance contracts with interdependent features	The Financial Condition (E) Committee, as well as the Executive Committee and Plenary, adopted revisions to SSAP No. 61 and the Q&A of Appendix A-791 to add guidance for risk transfer on contracts with interdependent features, including combination coinsurance and YRT reinsurance contracts.[10] The revisions are effective immediately for new or newly amended contracts and December 31, 2026 for existing contracts. For existing contracts, the clarification is accounted for as a change in accounting principles under SSAP No. 3, Accounting Changes and Corrections of Errors.[11]

6 SSAP No. 37, Mortgage Loans

7 SSAP No. 47, Uninsured Plans

8 SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies

9 SSAP No. 56, Separate Accounts

10 SSAP No. 61, Life, Deposit-Type and Accident and Health Reinsurance; Appendix A-791, Life and Health Reinsurance Agreements

11 SSAP No. 3, Accounting Changes and Corrections of Errors

Accounting highlights >>	
Interest maintenance reserve	**Reinsurance collateral** SAPWG exposed revisions to SSAP No. 61 to clarify how IMR derecognized in a reinsurance transaction influences the collateral required for the reinsurance credit for unauthorized or certified reinsurers. Comments are due February 13, 2026. **Proof of reinvestment** SAPWG exposed new statutory accounting concept and related template for IMR proof of reinvestment requirement to support deferral of realized loss through negative IMR. Comments are due February 13, 2026. **IMR Ad Hoc Subgroup update** SAPWG received an update about the activities of the IMR Ad Hoc Subgroup.
Derivatives used for asset-liability management	SAPWG directed NAIC staff to prepare an issue paper and a SSAP for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for ALM, using the amortized cost approach.[12] SAPWG proposed an effective date of January 1, 2027.
Retirement plans held at net asset value	SAPWG adopted revisions to SSAP Nos. 92 and 102 to clarify that assets held at net asset value (NAV) are included in the fair value disclosures under SSAP No. 100.[13]
Income taxes	SAPWG adopted revisions to SSAP No. 101 to adopt, with modification, ASU 2019-12 that simplifies accounting for income taxes.[14]
Nonadmittance of long-term repos	SAPWG exposed revisions to SSAP No. 103 to allow certain reverse repurchase agreements with maturity dates over one year to be admitted.[15] Comments are due February 13, 2026.

12 SSAP No. 86, Derivatives; SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees

13 SSAP No. 92, Postretirement Benefits Other Than Pensions; SSAP No. 100, Fair Value; SSAP No. 102, Pensions

14 SSAP No. 101, Income Taxes; ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

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

Accounting highlights >>	
Investment subsidiary classification	SAPWG adopted revisions to the Annual Statement Instructions to eliminate the concept of investments in noninsurance SCA entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries), including removing investment subsidiary from Schedule D-6-1 and AVR instructions. The revisions are effective December 31, 2026.
Principles-based bond definition – reporting clarifications	SAPWG exposed revisions to the Annual Statement Instructions to clarify the reporting of investments resulting from the implementation of the principles-based bond definition. Comments are due February 13, 2026.
Actuarial highlights >>	
Non-variable annuities	**VM-22 framework** After the Fall meeting, VM-22 Subgroup exposed the following: — a proposal to remove existing criteria for aggregation of deferred and payout annuities and add disclosure of the impact of aggregation; — a proposal for the reserve treatment of settlement options; and — a proposal for application of VM-22 to deposit-type contracts. Comments on the three proposals are due March 17, 2026. **Additional standard projection amount** On a call before the Fall meeting, the Life Actuarial Task Force (LATF) adopted an amendment to VM-22 to clarify the requirements for the additional standard projection amount (ASPA) disclosures and credibility. [16] **Retrospective application of VM-22** After the Fall meeting, the VM-22 Subgroup exposed questions about applying VM-22 to inforce policies. Comments are due March 2, 2026.

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

Actuarial highlights >>	
Reinvestment guardrails	**Pension risk transfer** LATF exposed discussion questions and framework considerations modifying the VM-22 reinvestment guardrail requirements for pension risk transfer (PRT). Comments are due January 23, 2026. **Valuation manual reinvestment guardrails** LATF exposed a proposal to update the reinvestment guardrails for VM-20, VM-21 and VM -22 to make them aligned.[17] Comments are due February 9, 2026.
Asset adequacy testing for reinsurance contracts	On a call before the Fall meeting, LATF adopted Actuarial Guideline (AG 55) reporting templates.[18]
Generator of Economic Scenarios	LATF adopted the Generator of Economic Scenarios (GOES) Model Governance Framework designed to mitigate risk by providing governance and controls for models producing scenarios used in calculations of life and annuity reserves under the Valuation Manual.
Variable annuities capital reserve calculations	Before the Fall meeting, the Variable Annuities Capital and Reserve Subgroup reexposed revisions to the C3 Phase I (C3PI) scenario requirements and the C3 Phase II (C3PII) risk-based capital metric for variable annuities to implement the adoption of the GOES for reserve and capital calculations. Comments were due January 5, 2026.

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

[18] AG 55, Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties

Risk-based capital >>	
RBC Model Governance Task Force	**RBC principles** The Risk-Based Capital (RBC) Model Governance Task Force adopted principles for RBC requirements. These principles will serve as a guide for governing the purpose and use of RBC and the maintenance and prioritization of future updates to RBC. **RBC Preamble revisions** On a call before the Fall meeting, the Risk-Based Capital Model Governance Task Force and the Capital Adequacy Task Force discussed proposed revisions to the preamble of the RBC formulas to include a discussion about the limited use of RBC to address regulatory concerns of users unknowingly relying on RBC for purposes for which it is not currently being maintained.
RBC principles for bond funds	**Risk-Based Capital Investment Risk Evaluation Working Group** On a call before the Fall meeting, the Risk-Based Capital Investment Risk Evaluation (RBC IRE) Working Group discussed the alignment of RBC treatment for bond funds that receive Securities Valuation Office (SVO) designations. **Property and Casualty Risk-Based Capital Working Group** On a call before the Fall meeting, the Property and Casualty Risk-Based Capital (P&C RBC) Working Group also discussed the alignment of RBC treatment for bond funds and how it could be applied for property and casualty insurers.
Covariance slide deck	On a call before the Fall meeting, the Life Risk-Based Capital (Life RBC) Working Group discussed comments on a presentation about revising the approach for covariance within the Life RBC framework.
Collateral loan reporting	On a call before the Fall meeting, the Life RBC Working Group exposed a proposal to revise the RBC treatment of collateral loans reported on Schedule BA to provide more granular reporting 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.

Valuation of Securities Task Force >>	
Collateralized loan obligation modeling	The Valuation of Securities Task Force (VOSTF) adopted an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to extend the effective date by which collateralized loan obligations (CLOs) will be financially modeled by Structured Securities Group (SSG) to assign NAIC Designations and NAIC Designation Categories to year-end 2026.
Other Developments >>	
Disclosures of funding agreements	The Macroprudential Working Group reexposed a proposal to add disclosures in the Annual Statement for funding agreements that back funding agreement-backed notes (FABNs). Comments are due January 26, 2026.

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Accounting highlights

Modified coinsurance and funds withheld

Action: SAPWG exposed revisions to SSAP No. 1 to add disclosures about ModCo, funds withheld and collateral assets. The revisions also add new reporting codes to the investment schedules in the Annual Statement. Comments are due February 13, 2026.

The proposed revisions would align requirements in SSAP No.1 to changes previously adopted by the Blanks Working Group in 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.

Commitments and contingencies

Action: SAPWG exposed 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. Comments are due February 13, 2026.

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 propose Annual Statement disclosures including:

- description of commitments and contingent commitments for:
  - SCA entities, joint ventures, partnerships or limited liability companies, including guarantees or additional capital contributions;
  - forward commitments that are not derivative instruments;
  - investments in tax credit structures, including commitments or contingent commitments specifically related to equity contributions and the year(s) in which equity contribution are expected to be paid;
  - purchases of tax credits; and
  - any other commitments and contingent commitments not otherwise disclosed on the notes of financial statements.
- comprehensive summary of all commitments and contingent commitments, including a description of each type under all other commitments and contingencies; and
- the nature of all loss contingencies and asset impairments of all other contingencies, including accrued amounts and exposures where only one SSAP No. 5 recognition condition is met or where additional loss is reasonably possible.

The proposed revisions also add a 'commitment for additional investment' column to Schedule D Part 1 and update Schedule BA instructions for consistency.

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

Debt security and residual interest disclosures

Action. SAPWG adopted revisions to SSAP Nos. 2, 21, 26 and 43 to add (1) consistent disclosures in the SSAPs for debt securities, and (2) new disclosures for residual interests, including whether the insurer is using the AEY method. The revisions are effective December 31, 2026.

The revisions include:

- expanding the existing disclosures in SSAP Nos. 26 and 43 about sales, maturities, proceeds and resulting realized gains or losses to bonds under SSAP Nos. 2 and 21;
- clarifying requirements for the bonds by maturity date disclosure by stating that insurers will be required to disclose information about the aggregate book adjusted carrying value and fair value and adding this disclosure for non-bond debt securities under SSAP No. 21;
- requiring disclosure of impaired securities to be included for all debt securities, regardless of measurement method and adding a data-captured template;

- expanding the Annual Statement Instructions and template to include disclosure of bifurcated other-than-temporary impairments for non-bond debt securities as well as residual interests that follow the AEY method;
- adding disclosures for residual interests to SSAP No. 21 to align with requirements for other invested assets and a new disclosure about:
  - basis at which the securities are stated and if it is transitioning from practical expedient to AEY method;
  - other-than temporary impairment recorded in the current period for securities following the AEY method; and
- adding all disclosure requirements directly to each SSAP (SSAP Nos. 2, 21, 26 and 43) and eliminating previously existing references to other SSAPs for those required disclosures.

SAPWG stated that these revisions are intended to improve the use of existing disclosures, clarify guidance, and implement consistent locations and frequency for specific debt security disclosures.

Private placement securities

Action. SAPWG adopted revisions to SSAP Nos. 2, 21, 26, 30, 32 and 43 to add an aggregate disclosure of key investment information by type of private placement investment and identify private placements in the investment schedules in the Annual Statement. The revisions are effective December 31, 2026.

The revisions require insurers to disclose:

- whether the investments are:
  - publicly registered;
  - a private placement under SEC Rule 144A; and
  - a private placement security including exempt from registration under Regulation D, a general exemption pursuant to Section 4(a)2 of the Securities Act of 1933 or other exclusion from SEC registration for investments captured under the Securities Act of 1933, excluding Rule 144A.
- the aggregate data by types of investment (public, Rule 144A, private placement or not applicable, those exempt from registration) by investment schedule for:
  - total book or adjusted carrying value (BACV);
  - fair value (with fair values determined under level 2 and level 3);
  - total amounts of deferred interest and paid-in-kind interest; and
  - total BACV of securities supported by private letter ratings.

SAPWG also suggested that the Blanks Working Group revise the Annual Statement by adding:

- an electronic column in quarterly and annual investment schedules for;

- short term investments;
- cash equivalents;
- bonds – issuer credit obligations;
- bonds – assets backed securities;
- common stock;
- preferred stock; and
- other long term invested assets.

- aggregate disclosure, by investment schedule, of the following information, by type of securities (public, Rule 144A, private placement securities and not applicable):
  - total BACV;
  - fair value, separating by fair values determined under level 2 and level 3;
  - total amounts of deferred interest and paid-in-kind interest; and total BACV of securities supported by private letter ratings.

Sales leaseback clarifications

Action. SAPWG reexposed 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. The revisions would be effective December 31, 2026. Comments are due February 13, 2026.

The proposed revisions add language stating that transactions where the cash or assets received as part of the sale are subject to restrictions would not qualify for sale-leaseback accounting and would be recorded as financing arrangements. These include restrictions on the use or sale of cash or assets received by the seller. If restrictions exist, cash or assets received are not available to meet policyholder obligations and would be nonadmitted.

Interested parties:

- asked to confirm that there is no intent to change other guidance about assets pledged as collateral included in INT 01-31;[19] and
- requested SAPWG consider grandfathering existing transactions that would no longer qualify under the new guidance to continue under the old accounting until maturity, or allow existing transactions to be reevaluated and restated as financing as of December 31, 2026.

Their recommendation was also to include transition guidance that would in their view provide regulators and insurers with the ability to apply reasonable judgment and avoid unnecessary disruption.

SAPWG stated that a lease arrangement that incorporates restricted cash or has collateral requirements is a financing arrangement, which is more in line with a debt agreement accounted for as a secured borrowing, and would

[19] INT 01-31, Assets Pledged as Collateral

require comparable reporting. They also commented that the examples discussed in INT 01-31 are examples where the collateral secures a liability that has been recognized on the balance sheet. They further questioned whether it was intended for assets pledged as collateral for off-balance sheet obligations (such as in operating leases) to be admissible, because if an insolvency were to occur during the term of the encumbrance, those assets would not be available to pay policyholders.

Residential mortgage loans held in statutory trusts

Action: SAPWG adopted revisions to SSAP No. 37 to expand its scope to include mortgage loans acquired through qualifying investments in a statutory trust. The revisions are effective January 1, 2027, with early adoption permitted.

The revisions to SSAP No. 37 include:

- adding characteristics of investments in a statutory trust to qualify as a mortgage loan;
- requiring disclosures for mortgage loans acquired through a qualifying investment in a qualifying statutory trust, including:
  - description of the statutory trust that identifies subprime mortgages, state of domicile as well as the US state or foreign country in which a statutory trust holds residential mortgage loans and a summary of assets and liabilities held within qualifying statutory trusts aggregated by type of assets and liabilities held;
  - material litigation and any material state or federal regulatory review or action involving the qualifying statutory trust(s);
  - financing transactions secured directly or indirectly by statutory trust assets; and
  - total of residential mortgages held in qualifying statutory trusts, disaggregated by loan standing: In Good Standing, Restructured, Overdue Interest Over 90 Days Not in the Process of Foreclosure, and In the Process of Foreclosure.
- stating that all statutory trust owned by the insurer are reported in the Annual Statement Schedule Y.

The revisions also:

- update SSAP Nos. 2 and 40 directing insurers to report cash and cash equivalents and real estate held by a qualifying statutory trust that was acquired through an in-substance repossession or foreclosure under SSAP No. 37, as if directly held by the insurer;20
- require insurers to report real estate investments held through a qualifying statutory trust on Schedule A; and

[20] SSAP No. 40, Real Estate Investments

- clarify that guidance for foreclosed real estate within qualifying statutory trusts, including those held directly or through wholly owned LLCs, follows the effective date and transition provisions in SSAP No. 37 for these new revisions.

Administrative services contracts

Action: SAPWG exposed revisions to SSAP No. 47 to clarify disclosures about profitability for ASCs. Comments are due February 13, 2026.

The proposed 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.

SAPWG stated that these revisions are in response to inconsistencies identified in disclosures about ASC profitability. The proposed revisions to SSAP No. 47 would also be included in the Annual Statement Instructions.

SSAP No. 48 equity method investments

Action: SAPWG exposed a proposal to review several concepts in SSAP No. 48 such that the guidance is clear and is consistently applied as intended. Comments are due February 13, 2026.

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 not indicate that it is 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.

SAPWG stated the proposed review is in response to questions raised about the timing of the requirement for the audited financial statements and guidance for determining the amount of book adjusted carrying value reported for assets under SSAP No. 48. Questions have also been identified about reporting provisions and if they are clear and are consistently applied.

Separate account nonadmitted assets

Action: SAPWG exposed revisions to SSAP No. 56 to add guidance about admissibility of assets held at book value in separate accounts. The revisions would also update the separate account Annual Statement Instructions and would be effective January 1, 2027. Comments are due February 13, 2026.

The proposed revisions state that:

- assets that are not admissible in the general account should not be transferred to the separate account and would not be admitted in the separate accounts that qualify for reporting of assets at book value; and
- assets reported at book value would comply with:
   - admissibility provisions of SSAP No. 4;[21]
   - applicable state investment limitations; and
   - other statutory provisions included in the Accounting Practices and Procedures Manual.

This proposal is a result of discussions by the IMR Ad hoc subgroup and the assessment of a long-term approach for IMR. This change would require net negative IMR that exceeded the admittance threshold to be reported as a nonadmitted asset, with future admittance permitted when the insurer goes below the admittance limit.

[21] SSAP No. 4, Assets and Nonadmitted Assets

Risk transfer analysis for reinsurance contracts with interdependent features

Action. The Financial Condition (E) Committee, as well as the Executive Committee and Plenary, adopted revisions to SSAP No. 61 and the Q&A of Appendix A-791 to add guidance for risk transfer on contracts with interdependent features, including combination coinsurance and YRT reinsurance contracts. The revisions are effective immediately for new or newly amended contracts and December 31, 2026 for existing contracts.

The revisions to SSAP No. 61:

- require multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s), whether they are entered into together or separately;
- require combination coinsurance and YRT reinsurance contracts that have interdependent features, such as combined experience refunds or inability to independently recapture, to be analyzed both individually and in the aggregate for risk transfer;
- state that these contracts, when evaluated in their entirety, cannot:
  - deprive the ceding insurer of surplus at the reinsurer's option or automatically upon the occurrence of some event;
  - require payments to the reinsurer for amounts other than the income realized from the reinsured policies; or
  - contain any of the other conditions prohibited by Appendix A-791 related to risk transfer; and
- state that for existing contracts, changes resulting from this clarification are accounted for as a change in accounting principle under SSAP No. 3.

The revisions to the Q&A of Appendix A-791 add that, for combination coinsurance and YRT reinsurance contracts with interdependent contract features:

- risk transfer will only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning there would be an established liability to absorb any possible payments; and
- the YRT premium being at or below the valuation net premium will not ensure that payments from surplus are not possible.

When considering the adoption of these revisions, the regulators acknowledged that this change may be significant to some insurers. They support regulatory flexibility and reporting transparency about the use and impacts of these reinsurance agreements. They encouraged insurers to work with their domiciliary regulators to determine if a permitted practice would be appropriate and advocated for clear disclosure to maintain the integrity of financial solvency assessments and consumer protection.

Interest maintenance reserve

Reinsurance collateral

Action: SAPWG exposed 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. Comments are due February 13, 2026.

The proposed revisions would require ceding insurers to increase reinsurance collateral requirements for net positive IMR derecognized from a reinsurance transaction and prohibit a decrease in reinsurance collateral requirements from the derecognition of net negative IMR (asymmetrical treatment).

SAPWG stated that this proposal is a result of discussion of the IMR Ad hoc subgroup. In those deliberations, the Ad hoc subgroup considered a symmetrical and asymmetrical approach. Interested parties advocated for IMR to be treated symmetrically, with collateral requirements being decreased for the derecognition of negative IMR.

With this exposure, SAPWG requested comments on whether the symmetrical approach should be considered.

Proof of reinvestment

Action. SAPWG exposed a new statutory accounting concept and related template for the IMR proof of reinvestment requirement. Comments are due February 13, 2026.

The proposed revision would require an insurer to pass two tests within the proof of reinvestment to record a new net negative IMR balance or increase the amount of net negative IMR from the prior year.

Test 1: Reinvestment Test – would verify 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 to certain balances).

If the final value is positive, the insurer would pass this test. Insurers failing the proof would:

- be permitted to admit IMR current year realized losses that offset current year realized gains; and
- recognize additional realized losses as an immediate capital loss in surplus and not defer them through IMR.

The proposal requires the proof to be performed separately for general account and separate accounts.

Test 2: Weighted Average Yield Test – would validate that the yield on newly acquired fixed-income investments is higher than the yield on investments sold. To complete this test, insurers would 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 would pass this test.

IMR Ad Hoc Subgroup update

SAPWG received an update about the activities of the IMR Ad hoc subgroup. In addition to the reinsurance collateral and proof of reinvestment, discussed above, as well as the separate account reporting topic for which proposals have been exposed, the subgroup's discussions focused on disallowed IMR, amortization of IMR and changes to bond NAIC designations guidance for allocating realized gains and losses to either IMR or AVR.

These discussions included:

- Disallowed IMR – proposal would remove the concept of disallowed IMR where positive or negative amounts in the general or separate account could permit a contra-liability to be reported instead of an asset;
- Amortization of IMR - proposal to improve consistency across insurers by following only the simplified amortization method where capital gains and losses, net of capital gains tax, would be grouped according to the number of calendar years to expected maturity and follow the 'grouped amortization schedule'. Insurers following different amortization methods currently allowed under the guidance would continue to use those methods for existing IMR, however, new IMR would follow the simplified method; and
- NAIC designation changes – updating guidance for realized gains and losses allocated to either IMR or AVR by stating that insurer would allocate:
  - all realized gains to IMR regardless of beginning and ending NAIC designation;
  - all realized losses from investments that with an NAIC designation 1 at the time of sale, regardless of beginning and ending designation to IMR;
  - the entire realized loss to IMR when an investment had three or less designation declines and does not have an NAIC 1 designation at the time of sale (a designation improvement would be considered to have three or less designation declines); and
  - the entire realized loss to AVR when an investment had more than three designation declines and does not have an NAIC 1 designation at the time of sale.

Derivatives used for asset-liability management

SAPWG directed NAIC staff to prepare an issue paper and an SSAP for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for ALM, using the amortized cost approach to report all designated hedging instruments.

On a call before the Fall meeting, SAPWG received a presentation from interested parties on proposed ALM derivative guidance along with two proposals for new statutory accounting guidance using (1) an amortized cost method and (2) fair value and spread method. SAPWG proposed the effective date of this guidance to be January 1, 2027.

The proposed guidance would allow 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, which could include the entire book of business or subsections thereof, pursuant to a clearly defined hedging strategy (CDHS). Requirements to use this guidance include insurers:

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

Accounting provisions for macro hedges would only be allowed for highly effective ALM derivatives that follow a CDHS and would require hedge effectiveness to be assessed at inception and at least quarterly.

Two approaches were presented for recognition and measurement.

The amortized cost proposal would include requirements to:

- report all designated hedging instruments at amortized cost;
- discontinue amortized cost treatment when derivatives:
  - mature or are terminated, with derivative fair value being recognized as deferred assets and deferred liabilities; or
  - are de-designated from a previous highly effective hedging relationship due to ineffectiveness or by election, with the derivative fair value reported as a deferred asset and deferred liability and all prospective fair value changes reported as unrealized gains or losses without deferral unless included as part of a subsequent highly effective hedge.
- allocate deferred assets and deferred liabilities from unassigned funds to special surplus; and
- amortize deferred asset and deferred liabilities using straight-line method into net gain from operations (NGO) over finite amortization period.

The fair value proposal would include requirements to:

- report all designated highly effective hedging instruments at fair value;
- report fair value fluctuations in the hedging instruments attributable to the hedged risk as deferred assets and liabilities;
- allocate deferred assets and deferred liabilities from unassigned funds to special surplus;
- recognize unrealized gains or losses for portions of hedging instruments that are not attributable to the hedged risk; and
- amortize deferred asset and deferred liabilities using straight-line method into NGO over finite amortization period.

At the Fall meeting, interested parties stated that they support the development of statutory accounting guidance for interest-rate hedging derivatives used for ALM. They favored the amortized cost method because of its operational advantages and alignment with the reporting of the hedged items.

SAPWG stated that the amortized cost method would mirror the approach for highly effective derivatives in SSAP No. 86. They pointed out that under the fair value approach, the fair value fluctuations would be reported as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the duration of the derivative and not just at termination. The deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR) and including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. The amortized cost approach would result in only realized gains and losses being captured in these assessments.

Retirement plans held at net asset value

Action. SAPWG adopted revisions to SSAP Nos. 92 and 102 to clarify that assets held at NAV are included in the fair value disclosures under SSAP No. 100.

The revisions to SSAP Nos. 92 and 102 include:

- stating that although investments reported at NAV are not categorized within the fair value hierarchy, they should be separately disclosed; and
- requiring insurers to disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share with specific disclosures when investments may be sold below NAV or if there are significant restrictions in the liquidation of an investment.

SAPWG stated that these revisions are in response to a comment received from an interested party requesting clarification about completing fair value disclosures for retirement plan assets measured using NAV, observing that NAV is not specifically referenced in SSAP Nos. 92 and 102.

Income taxes

Action. SAPWG adopted revisions to SSAP No. 101 to adopt, with modification, ASU 2019-12 that simplifies accounting for income taxes.

The revisions align statutory guidance with US GAAP to estimate the effective annual tax rate at each interim period and include US GAAP guidance previously incorporated by reference directing insurers to:

- estimate the annual effective tax rate based on the best available data and exclude the tax effects of significant unusual or extraordinary items; and
- recognize tax effects of losses arising in the early portion of a fiscal year only when tax benefits are expected to be realized during the year or recognizable as a deferred tax asset at the end of the year following guidance of with Topic 740 including:[22]
  - reflecting changes in valuation allowances and tax law effects in the period they occur; and
  - recognizing new legislation only after enactment.

Nonadmittance of long-term repos

Action. SAPWG exposed revisions to SSAP No. 103 to allow certain reverse repurchase agreements with maturity dates over one year to be admitted. Comments are due February 13, 2026.

The proposed revisions would:

- allow short term reverse repurchase agreements with maturities of 365 days or less to be admitted assets;
- clarify reporting for long-term reverse repurchase agreements, with maturity greater than 365 days, by stating such agreements are:
  - to be included on Schedule BA as an 'any other asset' and nonadmitted;
  - prohibited from moving to Schedule DA when remaining maturity falls within 365 days of the reporting date;
  - allowed to be admitted when the maturity is within 365 days of the reporting period 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.

[22] Topic 740, Income Taxes

The proposed revisions also state that this guidance would apply only to reverse repurchase agreements and does not affect the admissibility of long term repurchase agreements.

Comments were requested on the prevalence of puttable provisions in repurchase agreements and the need to include restrictions on admissibility if the repurchase agreement or other borrowing agreements have puttable provisions and if such agreements need additional disclosure.

SAPWG stated that these revisions are in response to industry questions about existing nonadmittance guidance, inconsistent reporting practices, and concerns about unequal treatment of repurchase agreements compared to other borrowing arrangements.

Investment subsidiary classification

Action. SAPWG adopted revisions to the Annual Statement Instructions to eliminate the concept of investments in noninsurance SCA entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries), including removing investment subsidiaries from Schedule D-6-1 and AVR instructions. The revisions are effective December 31, 2026.

The revisions do not revise SSAPs because the concept of an investment subsidiary is not included in SSAP No. 97.[23] The removal of the investment subsidiary from the Annual Statement Instructions aligns the Annual Statement Instructions with SSAP No. 97.

Principles-based bond definition – reporting clarifications

Action. SAPWG exposed revisions to the Annual Statement Instructions to clarify the reporting of investments resulting from the implementation of the principles-based bond definition. Comments are due February 13, 2026.

The proposed clarifications confirm that:

- payment due at maturity would not be changed unless additional lots are acquired;
- origination date information would be used when available, however insurers could use acquisition date information if an investment was acquired on the secondary market and origination data could not be obtained;
- bank loans would be reported as issuer credit obligations (ICOs) on Schedule D-1-1 but only for obligations of a single borrower and a structure backed by many loans would be reported as an asset-backed security (ABS) under SSAP No. 43; and
- residuals would be reported with the maturity date of the entire structure and a fund holding residential mortgage-backed securities (RMBS) or

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

commercial mortgage-backed securities (CMBS) would be classified as having 'underlying characteristics of bonds' and not looked through again to the underlying mortgage loans;

- the proposed revisions also clarify the reporting of ABS would be limited to structures with a greater potential for a distinct final payment; and
- rated notes or rated feeder funds would not be expected to qualify as ICOs and would be assessed as ABS.

SAPWG requested feedback on whether to limit reporting for ICOs to specific structures, such as single entity-backed obligations.

3

Actuarial highlights

Non-variable annuities

VM-22 framework

Action. After the Fall meeting, the VM-22 Subgroup exposed a proposal to remove existing criteria for aggregation of deferred and payout annuities and add disclosure of the impact of aggregation. Comments are due March 17, 2026.

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. [24] At the Fall meeting, LATF heard comments on the previously exposed aggregation proposal. Interested parties emphasized the importance of disclosure related to aggregation including expanded guidance on this process in VM-31. Some interested parties stated that aggregation for modeling purposes should occur when risks are managed together. One regulator strongly advocated for aggregation, emphasizing that objective criteria should be used for aggregation and suggests conducting separate runs before aggregating to promote transparency about the credit received. Other regulators generally supported this approach, stating the need for clear disclosure of aggregation benefits, however, some raised concerns about the potential impact on the cash surrender value floor.

Action. After the Fall meeting, the VM-22 Subgroup exposed a proposal for the reserve treatment for settlement options. Comments are due March 17, 2026.

The proposal allows the insurer to elect the valuation treatment of the originally issued contract, with the approval of the domiciliary commissioner, used consistently for all contracts in scope. It also prohibits the insurer from reverting back to using VM-22 PBR in the future. At the Fall meeting, LATF heard comments on the previously exposed proposal for settlement options. Interested parties recommended providing insurers with an option to use either the pre-VM-22 tabular reserve calculations or the new VM-22 PBR requirements. They stated that the most appropriate treatment could vary by insurer depending on their specific risk and investment management framework and allowing optionality, with disclosure of the rationale, would align the valuation with the insurer's actual practices.

Regulators expressed openness to allowing optionality but were concerned about allowing optionality if the block of business is managed separately from other business. They wanted to clarify which types of contracts would be allowed optionality. Interested parties suggested optionality be one-

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

directional where once a contract is within VM-22 the insurer cannot elect to use the pre-VM-22 tabular reserve calculations.

Action. After the Fall meeting, the VM-22 Subgroup exposed a proposal for the application of VM-22 to deposit-type contracts. Comments are due March 17, 2026.

The proposal clarifies that there are some deposit-type contracts that are in the scope of VM-22. At the Fall meeting, LATF heard comments on the previously exposed proposal for deposit-type contracts. Generally, interested parties recommended retaining the references and including certain deposit-type contracts, such as term-certain payout annuities and funding agreements, within the scope of VM-22. Excluding them would create an inconsistent application of reserving principles for products with similar risk profiles.

Next steps: LATF will expose separate proposals for both aggregation and settlement options.

Additional standard projection amount

Action. On a call before the Fall meeting, LATF adopted an amendment to VM-22 to clarify the requirements for the ASPA disclosures and credibility.

The amendment specifies that:

- insurers need credible assumptions for the stochastic reserve to demonstrate that their reserves are sufficient in the case that ASPA is indicated; and
- ASPA is not a safe harbor.

The amendment also revises VM-31 to add an attribution analysis on the ASPA every three years.

Retrospective application of VM-22

Action. After the Fall meeting, the VM-22 Subgroup exposed questions about applying VM-22 to inforce policies. Comments are due March 2, 2026.

The exposure included four possible approaches for application, including two mandatory approaches with exceptions and two optional approaches, and questions about:

- how far back should VM-22 apply to issue years;
- when should the VM-22 become effective for inforce policies;
- are there any concerns with regulatory resources for PBR reviews if VM-22 applies to inforce business; and
- should there be an exemption from requiring groups of contracts to be valued under PBR if below a materiality threshold.

At the Fall meeting, LATF discussed seven approaches for the retrospective application of VM-22 reserves for non-variable annuity business, including policies issued on or after January 1, 2017.

The different approaches considered included optional versus mandatory application, different criteria for continuing with the Commissioners Annuity Reserve Valuation Method (CARVM), and level of granularity for exemptions and optionality.

The approaches discussed included:

- mandatory retrospective application with:
  - only VM-22 exclusion testing (Approach A);
  - exemption by policy form allowed through stand-alone cash flow testing or demonstration that PBR is less than CARVM (Approach B); and
  - exemption by policy form, same as Approach B but optional for policy forms below a materiality threshold (Approach C).
- optional retrospective application with election applied:
  - the same to all products and issue years within the scope of VM-22 (Approach D);
  - by policy form applied to all issue years within each policy form (Approach E); and
  - at insurer's desired level of granularity (Approach F); and
- no inforce application (Approach G).

Approaches A and G did not receive regulatory support. The regulators stated that the mandatory application in Approach A would not be appropriate for insurers that have exited certain lines of business, stating it would be unreasonable to require them to apply a new valuation framework to products they no longer marketed.

Some regulators supported the optional application included in Approach D and suggested that regulators can have further discussions about how optionality could be applied, including defining blocks of business or allowing insurers to select specific years of issue. Some also supported Approach C because it includes the concept of materiality. However, others suggested a combination of Approaches C and D.

Reinvestment guardrails

Pension risk transfer

Action. LATF exposed discussion questions and framework considerations modifying VM-22 reinvestment guardrail requirements for PRT. Comments are due January 23, 2026.

The framework considerations included background about the size and nature of pension risk transfer transactions and key points about why PRT is different from other annuity products. It also included a potential solution that would better reflect actual investments, while maintaining an appropriate level of conservatism by prescribing reinvestment guardrail spreads and defaults in VM-20 for 100% PBR credit rating of Baa2/BBB plus a spread increase of 0.50% to account for illiquidity spreads and VM-31 disclosures.

The exposure includes the following questions.

- Do LATF members support the general direction to modify the reinvestment guardrail for PRT to some extent?
- Should insurer assumptions for spreads and defaults be used, or should a liquidity spread be considered, as is done for the reinvestment guardrail?
- Should the reinvestment guardrail be based on BBB plus a liquidity spread, for example BBB + 50 bp, or some other floor?
- What information should be disclosed in VM-31?
- What other concerns or considerations should be addressed?

Some regulators expressed concern about modifying the investment guardrail only for PRT. In their view, the PRT business does not have anything actuarially-specific that would not apply to other product types. They also stated the liquidity spread used in the guardrail should be linked to additional spread on the assets backing the PRT business, reflecting the less liquid nature of the liabilities. Regulators suggested considering other products as part of this proposal if LATF chooses to continue to explore whether the investment guardrail should be modified. Generally, regulators expressed interest in continuing conversations on this topic and stated more information is needed.

Valuation manual reinvestment guardrails

Action. LATF exposed a proposal to update the reinvestment guardrails for VM-20, VM-21 and VM -22 to make them aligned. Comments are due February 9, 2026.

The proposed reinvestment guardrail would use a credit quality blend of:

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

LATF stated the guardrail adopted for VM-22 was intended to be a compromise between the existing VM-20 and VM-21 guardrails, but it was determined that it did not always produce the intended effect. They asked the Academy to provide updated impact testing to reflect the proposed guardrail for review before adoption.

Asset adequacy testing for reinsurance contracts

Action. On a call before the Fall meeting, LATF adopted AG 55 reporting templates.

The AG 55 templates are effective for April 1, 2026 filings and address:

- company information;
- counterparty agreements;
- counterparty portfolio and assumptions;
- cash-flow testing results for a range of scenarios (NY 7, where applicable);
- attribution analysis of any reserve decrease; and
- margins in assumptions.

Generator of Economic Scenarios

Action. LATF adopted the GOES Model Governance Framework designed to mitigate risk by providing governance and controls for models producing scenarios used in calculations of life and annuity reserves under the Valuation Manual. The model governance framework:

- defines governance roles for key stakeholders in the GOES model process;
- updates the scope of the governance framework to focus on prescribed scenarios;
- details a plan to address validation or operational errors;
- establishes an annual model review and software version evaluation process; and
- introduces a five-year recalibration cycle to ensure continued model reliability and alignment with current data.

Variable annuities capital reserve calculations

Action. Before the Fall meeting, the Variable Annuities Capital and Reserve Subgroup reexposed revisions to the C3PI scenario requirements and the C3PII risk-based capital metric for variable annuities to implement the adoption of the GOES for reserve and capital calculations. Comments are due January 5, 2026.

The proposed revisions to C3PI would:

- require a subset of 200 scenarios selected from the 10,000 scenarios produced from the NAIC economic scenario generator, using significance values based on the 20-year US Treasury rates; and

- remove the option of using a simplified, 12 scenario approach.

The statutory capital and surplus position that is equal to statutory assets less statutory liabilities for the portfolio would exclude voluntary reserves and asset adequacy reserves from the calculation.

The revisions to C3PII would:

- change the current C3PII metric methodology from CTE after-tax (CTEAT) 98 to a CTEAT 90, less the stochastic reserve (SR);
- add a guidance note about the calculation of the SR including that it does not include the ASPA, asset adequacy reserves or voluntary reserve, which is any reserve that is not required by AG 43, VM-21 or VM-30 (e.g. asset adequacy reserves), but it does include other amounts required by a state in which the insurer is doing business;[25]
- clarify that the optional phase-in amount is the difference between the C3PII RBC amount at year-end 2025 under the current methodology and the 2025 year-end amount with the same inforce but using GOES and the revised C3PII metric; and
- if elected, insurers phase in the effects over three years by recording one third of the change in each calendar year beginning with year-end 2026.

The reexposure also included three questions about whether the revisions should:

- include considerations and languages for the CTE 95 level with a 25% scalar as well as the CTE 98 level with a 25% scalar;
- provide disclosures for the sensitivity of the remaining two metrics that are not going to be selected for the C3 Phase II out of the three, i.e. CTE 90 without a scalar, CTE 95 with a 25% scalar and CTE 98 with a 25% scalar; and
- consider alternative methodologies to reflect voluntary reserves as well as additional suggestions to get the minimum required capital calibrated while addressing the target capital.

When discussing the original exposure, interested parties expressed concerns with the proposed changes. They stated that moving to CTE 90 could introduce capital volatility and might not align with how insurers manage capital and risk. Their recommendations included:

- applying GOES scenarios to C3PI and C3PII starting with 2026 with a three year phase-in;
- retaining the current framework or moving to CTE 95 with a 25% scalar to better reflect the risk in the new GOES scenarios and be more consistent with the current RBC framework; and

[25] AG-43, CARVM for Variable Annuities

- disclosing CTE 90 without scalars and CTE 98 with 25% scalar for C3PII.

4 Risk-based capital

RBC Model Governance Task Force

RBC principles

Action. The RBC Model Governance Task Force adopted the principles for RBC requirements. The principles will serve as a guide for governing the purpose and use of and maintaining and prioritizing future updates to RBC.

The principles included statements that:

- the primary purpose of RBC is to identify potentially weakly capitalized insurers to facilitate regulatory action, and RBC may be used for other purposes, but those uses must not distort its primary purpose;
- RBC requirements should:
  - follow the principle of equal capital for equal risk, consistent in their statistical safety levels and time horizons;
  - consider only the factors that impact solvency risk, including concentration, diversification, and tail risks, while avoiding objectives unrelated to solvency;
  - use values derived from the Annual Statement, with calibrations that align with statutory accounting and reserving practices; and
  - be updated when change could impact a regulator's assessment of solvency risk (is material); and
- the process to maintain and update RBC should be transparent, incorporate emerging risks as they become material, and adhere to model risk management standards for ongoing updates.

The Task Force also discussed next steps for developing a broader governance framework, which will include:

- revising the RBC Preamble to add a new concept on disclosure to explain considerations when using RBC calculations outside of their stated regulatory purpose and articulating limitations of RBC;
- developing a process for analysing retrospective and future RBC adjustments including continuing with a gap analysis to identify:
  - investment trends;
  - incomplete or inconsistent RBC instructions; and
  - inconsistencies with statutory accounting guidance, Annual Statement Instructions, and reserving requirements in the Valuation Manual.

RBC Preamble revisions

On a call before the Fall meeting, the Risk-Based Capital Model Governance Task Force and the Capital Adequacy Task Force discussed proposed revisions to the preamble of the RBC formulas that include a discussion about the limited use of RBC to address regulatory concerns of users unknowingly relying on RBC for purposes for which it is not currently being maintained.

Regulators reiterated that the primary goal of the revisions is to reinforce the intended use of RBC as a tool for identifying potentially weakly capitalized insurers to facilitate regulatory oversight and not as a tool to rank, rate or compare insurers. They expressed concerns that RBC is being used as a ranking tool or managed by insurers to achieve a certain level, instead of for its intended solvency monitoring purpose.

Interested parties expressed concern with the proposed changes, including stating that the revisions would:

- reduce transparency for investors, policyholders and other stakeholders who have relied on public RBC data;
- create conflicts with other regulatory and standard-setting requirements that necessitate public disclosure of RBC-related information; and
- disregard the valid, non-ranking uses of RBC data by companies for risk management, and by rating agencies and other stakeholders for assessing financial health.

Although, interested parties acknowledged that it is inappropriate to use RBC ratios to rank or compare insurers' financial strength, they stated that these concerns can be addressed in a more targeted way than the current exposure allows. Some interested parties recommended alternative edits that would balance regulatory concerns with the need for public transparency. They cautioned that removing public access to RBC data would likely lead to the use of less-reliable, alternative metrics for financial strength, which would not benefit regulators or the public.

Next steps. The RBC Model Governance Task Force will continue its discussion on this topic.

RBC principles for bond funds

Risk-Based Capital Investment Risk Evaluation Working Group

On a call before the Fall meeting, the RBC IRE Working Group discussed the alignment of RBC treatment for bond funds that receive SVO designations that included:

- exchange-traded funds;
- US SEC-registered fixed income-like funds; and
- private bond funds.

Interested parties raised concerns about the significant differences in asset duration and risk charges between life insurers and property and casualty insurers. They recommended that any changes to RBC formulas should not be extended to other formulas without input from relevant working groups.

Regulators observed that the changes to the RBC treatment of bond funds do not fully achieve the goal of alignment among bond ETFs, bond mutual funds and private bond funds. They stated that differences in accounting and reporting for these funds complicate efforts to provide uniform RBC treatment. They also agreed with interested parties that further analysis on the implications for property and casualty and health insurance formulas is needed before moving forward.

Property and Casualty Risk-Based Capital Working Group

On a call before the Fall meeting, the P&C RBC Working Group also discussed the alignment of RBC treatment for bond funds and how it could be applied for property and casualty insurers.

Interested parties expressed support for aligning RBC treatment of SVO-designated funds across all insurers, stating it will ensure equal capital for equal risk and improve the accuracy and comparability of solvency assessments. However, some interested parties expressed concern that the RBC framework should remain focused on solvency monitoring and changes should not add regulatory complexity without clear regulatory benefit. They emphasized the importance of conducting a thorough risk assessment to understand the unique risks associated with different investment fund types and performing analysis at the individual insurer level before implementing any changes to the RBC formula.

Covariance slide deck

On a call before the Fall meeting, the Life RBC Working Group discussed comments on a presentation about revising the approach to covariance within the Life RBC framework.

The proposal revises the current correlation matrix, where most correlations are set at either 0% or 100%, to a linear correlation between major risk categories as correlation matrix of factors of:

- 50% between credit and equity risks;
- 50% between equity and interest rate risks;
- 25% between credit and interest rate risks; and
- 0% between both insurance and business risks and all other risk categories.

For nested correlations, the proposal recommends:

- a 25% correlation between health credit risk (C-3b) and asset default risk (C-1o);

- 100% correlation for equity risks (C-1cs and C-3c);
- no change to the existing -25% correlation between mortality (C-2a) and longevity (C-2b) risks; and
- a 0% correlation between the premium and liability components (C-4a) and health administrative expense component (C-4b).

Interested parties expressed concerns with the proposal, stating that changing the correlation factors could disrupt the industry without improving the identification of weakly capitalized insurers. They emphasized that it could result in extreme shifts in risk charges and unintended consequences for capital adequacy, risk management and investment strategies. Their recommendations included:

- using longer data periods to capture varied economic environments and improve statistical credibility;
- conducting more granular analysis within asset classes to better reflect actual insurer portfolios;
- revisiting the base equity charge if correlation factors are updated; and
- aligning the proposal with ongoing RBC framework updates and governance principles.

Collateral loan reporting

Action. On a call before the Fall meeting, the Life RBC Working Group exposed a proposal to revise the RBC treatment of collateral loans reported on Schedule BA to provide more granular reporting 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.

The proposal would:

- add a new reporting line for schedule BA collateral loans backed by mortgage loans and assign an RBC factor of 0.03, which is a factor when the structure is unaffiliated to the insurer and the mortgage loans are not primarily senior;
- assign an RBC factor of 0.30 for collateral loans backed by investments in joint ventures, partnerships or limited liability companies, which is a factor for Schedule BA unaffiliated stock;
- assign an RBC factor 0.45 for collateral loans backed by residual tranches or interests, which is the factor for residential tranches and interest; and
- assign an RBC factor of 0.068 for all other collateral loans, which is the existing factor for collateral loans.

The proposal also includes three options for AVR related to all other collateral loans including:

- continue to set AVR basic contribution, reserve objective and maximum reserve to zero;
- use AVR factors for Schedule BA assets that are not categorized as stocks, preferred stocks, mortgage loans, and fixed income that would result in the same AVR treatment for residual tranches and interests; and
- use another AVR factor that would be deemed appropriate for collateral loans.

5 Valuation of Securities Task Force

Collateralized loan obligation modeling

Action. VOSTF adopted an amendment to the P&P Manual to extend the effective date by which CLOs will be financially modeled by SSG to assign NAIC Designations and NAIC Designation Categories to year-end 2026.

The extension will allow SSG to improve its methodology and to align with the work of the RBC IRE Working Group on CLOs and asset-backed securities and the RBC Model Governance Task Force on the RBC framework.

6 Other developments

Disclosures of funding agreements

Action. The Macroprudential Working Group reexposed a proposal to add disclosures in the Annual Statement for funding agreements that back FABNs. Comments are due January 26, 2026.

The proposal would require insurers to disclose information about funding agreements that back FABNs, including:

- foreign currency denominated funding agreements that support FX FABNs, including year-end balances by currency denomination;
- funding agreements that support repurchase agreements;
- all other funding agreements that support FABNs;
- whether any funding agreement supports puttable FABNs; and
- amounts of funding agreements by maturity date timeframe.

The Macroprudential Working Group stated that if these disclosures are adopted, they will send a referral to SAPWG to consider adding disclosures to SSAP No. 52 that include:[26]

- a description of how the funding is used; and
- for funding agreements that back any form of FABNs, situations where the terms of the funding agreement do not match the terms of the related FABNs.

FABNs are debt instruments issued by special purpose vehicles (SPVs) that are established by life insurance insurers, whereby an insurer issues a funding agreement to the SPV to pay principal and interest, and SPV pays the principal and interest to the holders of FABNs.

The current statutory reporting framework does not have specific disclosures for FABNs. However, insurers report the amount of funding agreements in the aggregate, with disclosure of funding agreements issued in connection with Federal Home Loan Bank advances. Regulators stated that lack of reporting about FABNs limits their ability to monitor the activity and potential risks associated with the FABN market. The goal is to adopt disclosures to be effective for 2026 year-end.

[26] SSAP No. 52, Deposit-Type Contracts

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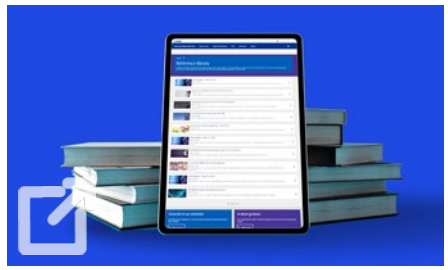

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