	Iowa	Doug Bartlett	New Hampshire
Sheila Travis/Richard Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Bill Werner	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

REVIEW of COMMENTS on EXPOSED ITEMS

The following items are open for discussion and will be considered separately.

1. Ref #2024-10: Book Value Separate Accounts
2. Ref #2024-15: ALM Derivatives
3. Ref #2024-26EP: Fall 2024 Editorial Revisions
4. Ref #2024-05: Appendix A-791
5. Ref #2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-10 (Julie)	Book Value Separate Accounts	1 – Agenda Item	Comments Received	IP – 1

Summary:
On August 13, 2024, the Working Group exposed revisions to SSAP No. 56—Separate Accounts

The ACLI is in support of much of the exposed guidance updates. Particularly, we are in support of the proposed guidance for transfers between General Account and Separate Account (paragraph 22). The ACLI previously provided a detailed presentation entitled "ACLI Derivative IMR Solution Proposal" ("ACLI Solution," included as Appendix I) to the IMR Ad Hoc Working Group. Discussions of the ACLI solution at the NAIC Ad Hoc IMR WG were the impetus for this exposure. The exposed guidance updates to SSAP No. 56 largely reflect the findings from the ACLI Solution presentation and, should it be beneficial to regulators, the ACLI would appreciate the opportunity

NAIC Staff Question: Feedback is requested on the named contracts (PRT and RILA) and whether other example contracts should be named.

In addition to PRT and RILA, BOLI policies have also been identified as current separate account policy types being carried at Book Value by member companies. As previously addressed above, the listing of current book value separate account policy types does not account for the development and regulator approval of book value separate account policies in the future. As has been the case with the existing guidance, the listing of policy types could be misinterpreted by some as a definitive listing of approved Book Value Separate Accounts which will again lead to diversity in practice and the need to regularly update guidance to include new policy types within the list and/or could lead to implicit prescribed practices. For these reasons, the ACLI recommends that neither

Discussion on the proposed edits and the items recommended for discussion are provided below:

Proposed Edits to SSAP No. 56: As detailed in the ACLI comment letter, they are largely supportive of the exposed edits. The ACLI has proposed edits to paragraph 18.b. regarding contracts for which a state insurance regulator could approve for reporting at book value. In addition to revised wording regarding the investment pools, the ACLI have also proposed eliminating the example contracts from the guidance. NAIC staff has incorporated much of this proposed language but has revised the ACLI proposal for “will be recorded” to “may be recorded” as paragraph 18.b. is only allowed if regulator approval is obtained, and has retained the examples of contracts, expanded to also refer to bank-owned life insurance (BOLI) contracts.

Footnote 1: The inclusion of this guidance does not imply support for these contracts within the separate account instead of the general account. The domiciliary state insurance regulator is responsible for assessing and approving separate account contract classification in accordance with state statutes.

Additionally, paragraph 22 is proposed to be expanded to reference fair value as the measurement method for othe transfers. This is further discussed below, with a request for comments on the treatment of IMR, but also shown here as part of the proposed updated revisions for exposure: (This entire paragraph is new in the SSAP, the change from the prior exposure are shaded.)

22. Asset transfers that do not reflect sales for cash between the general account and separate account ar subject to domiciliare-1.6 .009 Tc 0.009 Tw [.907 0 (( )10.5 (a)136 (s)-04.6 (s-1.3sfa)136 a)11..1.1(c 0 Tw

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e. Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)

The ACLI previously provided a detailed presentation entitled “ACLI Derivative IHLed ation NetetNAP15 sI eation

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comments to consider. As such, the Working Group could choose to delay this decision to allow regulators a thorough review of the comments and possible ramifications of establishing guidance.

NAIC staff notes there are several comments in the ACLI's letter indicating support for reporting realized losses as admitted assets, and comments opposed (t)-1.8 aside

229. Only items that are assets or liabilities should be reported as such in financial statements.

- Industry has argued that implementing an aggregate cap on "soft assets" would be inappropriate. However, specific regulatory caps and limits already exist for certain types of "soft assets," and it is consistent with statutory principles to apply an aggregate cap on the accumulation of such assets within the same framework. Industry notes that the common theme for "soft assets" is that they either adjust values for consistent valuation of assets and liabilities to provide an accurate picture of claims paying ability or represent real economic value that help insurers pay claims. While NAIC staff does not necessarily disagree with this perspective, the economic value of these assets and valuation adjustments do not directly correspond to funds available for paying policyholder claims, and neither are they readily marketable as discussed in the prior paragraph. Furthermore, concentrations of such assets pose an increased solvency risk. However, the statutory caps currently in place take a narrow, individual view of the risks associated with these soft assets. If an insurer were to accumulate multiple types of soft assets and admit amounts up to the individual caps for each, the combined admitted value could significantly impact admitted surplus. While these financial instruments are distinct, they all represent abstractions of economic value in the context of the preamble recognition concept cited above. Implementing an aggregate cap to guard against the excessive accumulation of various kinds of "soft assets" would align with existing statutory principles and fall within the scope of regulatory oversight.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-26EP (Julie)	Fall 2024 Editorial Revisions	3 – Agenda Item	Comments Received	IP – 61

<u>Summary</u>:
On November 17, 2024, the Working Group exposed editorial revisions to SSAP No. 26—Bonds to clarify an annual audited disclosure for assets receiving bond treatment, with clarification that the disclosure shall be completed by category and subcategory as reported in Schedule D-1-1 and D-1-2. This item was exposed with a shortened comment deadline ending November 9, 2024.

> 39e. For each annual balance sheet presented, the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond or assets receiving bond treatment, by category and subcategory as reported in Annual Statement Schedule D-Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset-Backed Securities)

<u>Interested Parties' Comments</u>:
Interested parties request a deferral of Ref #2024-26EP for further discussion in 2025 to address several concerns that we have with the proposal. We believe that the terms 'category and subcategory' need clarification as we've interpreted that category equates to ICO and ABS and subcategory equates to examples such as 'Non-U.S. Sovereign Jurisdiction Securities' and 'Other Non-Financial Asset-Backed Securities – Practical Expedient'. We suggest clarifying language in the Investment Schedules General Instructions of the Annual Statement Instructions to differentiate between Categories and Subcategories. The proposed revisions to SSAP No. 26 would require disclosure of all the new Schedule D-Part 1 categories and the underlying subcategories in the audited financial statements. The Principles-

Recommendation:
NAIC staff recommend adopting the exposed editorial change to ***SSAP No. ~~26~~Bonds***. The proposed requirement is consistent with the current disclosure, just using broad terms to detail the reporting level rather than named categories.

C. <u>Any Other Matters</u>

The following agenda items were exposed until Dec. 16, 2024. Although comments have been received, they are not planned for discussion until 2025, either on an interim call or at the 2025 Spring National Meeting.

- 2022-14: Issue Paper on revisions to SSAP No. 93—Investments in Tax Credit Structures and SSAP No. 94—State and Federal Tax Credits
- 2023-24: Issue Paper that details U.S. GAAP guidance prior to the adoption of the current expected credit loss (CECL) guidance.
- 2024-04: Exposed agenda item and memo that details accounting, reporting and RBC guidance for repo and sec lending transactions.
- 2024-07: Exposed revisions to the annual statement and related instructions to add new reinsurance schedules to capture information on modified co-insurance reporting.

Comment Deadlines:

- All exposed items are proposed to have a comment deadline of Jan. 31, 2025. This corresponds with the deadline for items exposed at the Fall National Meeting. If additional time is needed for a specific topic, industry is requested to submit those requests directly to NAIC staff.

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Statutory Accounting Principles (E) Working Group
Hearing Agenda 2
December 17, 2024

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver/Steve Mayhew	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis/Richard Russell	Alabama		

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March 2024 exposed revision to A-791, Life and Health Reinsurance Agreements, paragraph 2c Q&A:

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds DJDLQVW FXUUHQW DQG SULRU \HDUV¶ ORVVHV XQGH
ceding insurHU RI DQ DPRXQW HTXDO WR WKH FXUUHQW DQ
agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

A-791, Life and Health Reinsurance Agreements, paragraph 2c¶V 4XHVWLRQ: DQG $QVZHU

Q ±If group term life business is reinsured under a YRT reinsurance agreement (which includes risk -limiting features such as with an experience refund provision which offsets refunds against FXUUHQW DQG RU SULRU \HDU ³ORVV FDUU\IRUZDUG´ SURYLVLRQ, under what circumstances would any provisions of the reinsurance agreement bH FRQVLGHUHG ³XQUHDVRQDEOH SU
DOORZ WKH UHLQVXUHU WR UHGXFH LWV ULVN XQGHU WKH DJUHHPHQ

A ±Unlike individual life

Group re-exposed the revisions previously exposed in March 2024 with a request for specific recommendations. The comment deadline on this agenda item was subsequently extended to Dec. 9 at the request of the ACLI.

The Working Group exposure is based on existing

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+Modco Interest (if Modco)

- Experience Refunds (if included)

The above result may result in an expense and risk charge with favorable experience.

The inuring agreements in the above could be YRT of mortality risk or other coinsurance of reinsured business of the benefits or even catastrophic stop loss arrangements. The inuring agreements could be traditional YRT with an experience refund arrangement. They could also be YRT agreements of a more financially motivated arrangement, i.e., a high YRT premium based on a high percentage of the valuation mortality basis, combined with a large experience refund.

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ceding companies do this? Well in past circumstances, perhaps they were reinsuring the business with two reinsurers

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does not allow for any YRT exemption because the surplus and capital aid of the combination exceeds that of a zero premium YRT treaty. The model regulation accounting requirements should apply to all the components of the treaty.

/H W¶V assume the coinsured portion of the business produces negative cash flows as a result of poor investment experience and the additional YRT business produces an experience refund that more than offsets the negative experience.

Note that all reinsurance has a cost. The YRT portion of the business has a cost associated with it. The cost is
Prem TJ Tf o11(m)-4( )9( )-9764 TJ Tf on11(si)-9767oy a5(at-4( )9( )-9764 TJ Tf on19( )-9764 Ee)-212e 6(t)en-

would be a violation of the model regulation as it would be an additional payment or a payment outside of profits in the business. Likewise, any additional premium paid, or reduction in experience refund of associated treaty provisions, would similarly be a violation of the model regulation.

,Q 3 & DUUDQJHPHQWV WKHUH LV RIWHQ UHIHUHQFH WR WKLV W\S This has no place in a life reinsurance transaction.

This concluding argument of looking through to the substance of the transaction validates all the other above arguments that this new interpretation of the combo structure violates the model regulation!

If the additional YRT is, in essence, accounted for as an inuring agreement, just has it has always been done, the appropriate cash flows fall out in the treaty accounting and the reserve credits are justified.

<u>Recommendation</u>:
NAIC staff notes that the exposed revisions are narrowly focused on the issue that interdependent contracts, and/or interdependent contract features, must be analyzed in aggregate and (including all relevant facts and circumstances). <u>As all of the parties who have commented agree that the entirety of the contract must be analyzed, NAIC staff continues to support adoption of the exposed revisions, with timing subject to the discretion of the Working Group</u>. If the Working Group wants to continue discussions on this topic, NAIC staff recommend a joint meeting of the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force. This is because actuarial expertise would be beneficial in discussing some of the comments received on the actuarial risk transfer analysis. In addition, the Dec. 2023 referral was from the Valuation Analysis (E) Working Group. The exposed revisions to SSAP No. 61 are below for reference:

<u>18. For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a</u>

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- Comments from VAWG and from Stevenson note that not all such combination contracts are concerning, but also noted that some of the more concerning combination contracts have structural variations or assumptions on the cash flows that differ from the historic structure / assumptions of many such contracts.
- 6WHYHQVRQ Traditionally, the YRT combined in coinsurance agreements is YRT UHLQVXUDQFH LQXULQJ WR WKH EHQHILWV RI WKH UHLQVXUH He provides further comments on variations that are concerning on newer interpretations and newer combination structures in his comments on inuring agreements compared to separate agreement cash flow evaluation.

2. Bifurcated analysis - ACLI proposed revisions to SSAP No. 61 and to 791 QA would formally require a

arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61R.

From SSAP No. 61, paragraph 19

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.