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OVERVIEW AGENDA

MEETING AGENDA

	Meeting Page Number	Attachment
4. SAPWG Meeting – Maintenance Agenda – Pending List—*Dale Bruggeman (OH)*		
• Ref #2024-20: Restricted Asset Clarification	1	A
• Ref #2024-21: Investment Subsidiary Classification	4	B
• Ref #2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards	6	C
• Ref #2024-23: Derivative Premium Clarifications	7	D
• Ref #2024-24: Medicare Part D – Prescription Payment Plan	7	E-F
• Ref #2024-25: SSAP No. 16 ASU Clarification	9	G
• Ref #2024-26EP: Fall 2024 Editorial Revisions	9	H
5. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*		
• Review of U.S. GAAP Exposures	10	I
• Update on the IMR Ad Hoc Subgroup	10	None
• Update on the Bond Project Implementation / Bond Small Group	10	None
• Use of 3rd Party Vendors / Checklists to Determine Bond Definition Compliance / Classification	10	None
• IAIS Audit and Accounting Working Group (AAWG Update)	10	None
• Update on Reinsurance Exposures	10	None
• December 17th Meeting	10	None

¾ **Comment Deadline for Ref #2024-26EP – Monday, December 9, 2024**
¾ **Comment Deadline for all other items – Friday, January 31, 2025**

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Statutory Accounting Principles (E) Working Group
Hearing Agenda
November 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	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.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on October 9, 15 and November 12. These regulator sessions were pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the Accounting Practices and Procedures Manual). No actions were taken during these meetings as the discussions related to reinsurance transactions at certain companies and to preview the Fall National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC open meeting policy.

REVIEW AND ADOPTION OF MINUTES

1. Summer National Meeting (Attachment 1)
2. September 12, 2024 (Attachment 2)
3. October 4, 2024 (Attachment 3)

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures
2. Ref #2024-17: Clearly Defined Hedging Strategy
3. Ref #2024-18: Clarification to NMTC Project
4. Ref #2024-19: ASU 2024-02, Codification Improvements, Amendments to Remove References to the Concepts Statements

Ref #	Title	Attachment #	Agreement with Exposed

Concept Statements would result in users incorrectly inferring that the referenced Concept Statements were authoritative.

The FASB Concept Statements are referenced in the *Accounting Policies and Procedures Manual* within the

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2019-21: INT 24-01 - Principles-Based Bond Definition Implementation Questions & Answers
2. Ref #2023-28: Collateral Loan Reporting
3. Ref #2024-16: Repack and Derivative Investments

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 (Julie)	INT 24-01 - Principles-Based Bond Definition Implementation Questions & Answers	8 – Q&A 9 – INT	Comments Received	IP – 2 & 8 Spectrum – 10

Summary:
On August 13, 2024, the Working Group exposed the draft Question-and-Answer Implementation Guide (Q&A) for a comment period ending Sept. 27, 2024, to address issues of implementing the Principles-Based Bond Project that have been brought from industry to the Bond / AICP small group. The Q&A interprets how the SAP guidance should be applied to specific investment structures or investment characteristics.

On October 4, 2024, the Working Group exposed (via e-vote) an updated Q&A to incorporate three additional topics including, commercial mortgage-backed securities (CMBS) interest-only (IO) strips, commercial mortgage loan (CML) single asset single borrower investments (SASBs), and hybrids. With this exposure, it was identified that interested parties had not provided comment on any of the bond implementation questions and answers in the first exposure but had provided comment on the classification of issue papers in the statutory hierarchy. The updated Q&A included minor edits to paragraph 9.2 to eliminate an aspect from the Q&A without changing the intent of the guidance. As the discussion of an issue paper's classification in the statutory hierarchy is broader than the Q&A, discussion of issue paper classification was noted to occur at the Fall National Meeting.

Interested Parties' Comments – Exposure Ending Sept. 27, 2024:
Interested parties appreciate the exposure of the Q&A as it will help address meaningful interpretative issues and facilitate more consistent implementation by insurance companies. Interested parties also would like to highlight the following language in paragraph 7.2:

Practices & Procedures Manual that suggest issues papers are not authoritative (e.g., Appendix E) would need to be updated for consistency.

Interested parties also believe the Q&A should be included in the statutory hierarchy, perhaps by including them as an interpretation (Level 2) which still serves the purpose of the language in paragraph 7.2 that puts the Q&A in a position subordinate to SSAP No. 26—Bonds and SSAP No. 43—Asset-Backed Securities

<u>Interested Parties' Comments – Exposure Ending Oct. 28, </u>2024:

Interested parties appreciate the exposure of the three additional Q&A topics as they will help address meaningful interpretative issues and facilitate more consistent implementation by insurance

In our opinion, this reclassification imposes onerous capital requirements on a highly rated instrument (ratings which incorporate both credit and structure). We believe this deviates from the underlying fundamental risk as capital requirements would be higher than those for common equity holdings and could misallocate otherwise sound investments.

As such, we request that this matter be reviewed, and that P&C and Health insurers be able to file with the SVO/use Filing Exempt (FE) designations for RBC for capital notes reported on Schedule BA and suggest a change to P&C/Health RBC risk factors for capital notes, in line with what afforded to Life insurers. Thank you for your consideration as it relates to this matter.

Recommendation:
This discussion has been divided between comments received on the exposed QA guidance and discussion on an issue paper's status in the statutory hierarchy.

1) Review and Consider Adoption of Bond Definition Q&A Implementation Guide:

Recommendation: NAIC staff recommend that the Working Group consider adoption of the exposed Q&A in a new interpretation to SSAP No. 21—Other Admitted Assets and SSAP No. 26—Bonds with the edits suggested by interested parties. By including as an interpretation, the guidance in the Q&A is captured as Level 2 of the hierarchy. In the event the SSAP guidance was revised and the Q&A did not incorporate consistent revisions, the SSAP guidance would be the authoritative literature.

In addition to the adoption of the Q&A, NAIC staff recommend that the Working Group send a referral to the P/C and Health RBC (E) Working Group with information on the adopted revisions for the bond definition with identification that the non-bond debt securities will not have the opportunity for RBC based on SVO-Assigned Designations. This referral will inquire whether the RBC Working Groups should consider more granular RBC reporting based on SVO-Assigned Designations.

Lastly, NAIC staff recommend that the Working Group direct NAIC staff to work with industry on a review of

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2) Discuss Issue Paper Status in Statutory Hierarchy

Recommendation: NAIC staff recommend that the Working Group direct a new agenda item to consider capturing issue papers in Level 5 of the statutory hierarchy. Although interested parties have proposed a classification of Level 2, and an alternative classification in Level 4, NAIC staff suggest that consideration of a Level 5 classification is most appropriate to prevent any unintended conflicts with other sources of statutory guidance. The rationale for this position is that issue papers are not updated after adoption and should not be considered more applicable than any other statutory-specific guidance, whether that guidance is deemed to reflect accounting guidance, reporting instructions or information from the SVO manual. The Level 5 classification will put issue papers on the same level as non-authoritative GAAP guidance and literature. NAIC staff believe this is appropriate, as if guidance for a topic is not specifically detailed in any other form of statutory-specific sources, adopted issue papers should be a viable source for guidance along with non-authoritative GAAP.

As detailed within, from a review of references in the issue papers, various references imply that issue papers can be applied and utilized as long as the guidance within the Issue Paper does not conflict with other guidance. There are a few explicit instances that note they are not authoritative/in the statutory hierarchy. NAIC staff notes that Issue Papers often include discussion of guidance or components that are not incorporated into SSAP, therefore it is imperative for the guidance to only be applicable if consistent with an adopted SSAP. By adding the issue papers to Level 5, this reference would clarify the intent to use issue papers, and the use of information detailed within, eliminating questions on the use of the guidance that is consistent with currently adopted SSAPs.

- By classifying issue papers as Level 5, instead of Level 2, if there is a subsequent reporting revision that is not captured in statutory accounting but only reflected in the annual statement instructions, the updated instructions, which are level 3, shall be followed. If issue papers were classified as Level 2, there could be inherent reporting conflict if the issue paper detailed reporting requirements at the time of adoption as that guidance would not be subsequently updated.

- By classifying issue papers as Level 5, instead of Level 4, issue papers will continue to be below the SAP Preamble and Statement of Concepts. As such, if there are revisions to the Preamble, those revisions will continue to override any potential conflict with a previously adopted issue paper.

NAIC staff recognizes that existing guidance presents inconsistent references to issue papers causing confusion on how/when they should apply. As noted, there are a few explicit statements that issue papers are not authoritative, but other references imply application and use of Issue Papers when there are differences between the issue paper and the SSAP. NAIC staff believe it is imperative to restrict application only when the guidance is in line with a current adopted SSAP. As SSAPs have not historically been posted publicly, NAIC staff receive questions that cite guidance in issue papers as they are posted publicly. Often in these situations, the citations have been superseded by more current SSAP, so attempting to use the issue paper guidance in those instances would not be in line with current SSAP. The following Preamble excerpt has been within the NAIC Accounting Practices and Procedures Manual since original codification (2000 Manual) and implies that finalized issue papers are applicable but defer to the SSAP if differences exist. (This was paragraph 41 in the 2000 Manual and is reflected as paragraph 45 in the 2024 Manual.)

> 41/45. This Manual consists primarily of Statements of Statutory Accounting Principles (SSAPs). SSAPs are the primary Accounting Practices and Proced

The following Preamble excerpt has also been within the NAIC Accounting Practices and Procedures Manual since original codification (2000 Manual) and indicates in the absence of a SSAP or "established source of statutory accounting principles," other accounting literature may be considered. As issue papers would represent an established source of statutory guidance, this Preamble guidance could be argued to have always supported issue papers as a source that could be considered along with non-authoritative GAAP if other statutory guidance did not exist. (This is paragraph 40 in the 2000 Manual and is reflected as paragraph 44 in the 2024 Manual.)

> 40/44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature below category c in the GAAP hierarchy as defined in SAS 69. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources below category d in the GAAP hierarchy4.

From a review of all issue papers, NAIC staff has identified that the original issue papers that correspond to the

Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.

Although the original process for issue papers was to have them adopted prior to the development and adoption of

Current Appendix E Introduction is as follows:

Introduction

Issue papers are used as the first step in developing new or revised SSAPs, and each contains a recommended conclusion, discussion and relevant literature section. While issue papers do not constitute an authoritative level of statutor y accounting guidance as defined by the statutory hierarchy, they are an important part of the Accounting Practices and Procedures Manual (Manual) because they reference the history and discussion of the related SSAP.

Issue papers are published in the Manual within Appendix E the first year after adoption of the related SSAP, but are then removed from the subsequent year's Manual and posted for public reference on the Statutory Accounting Principles (E) Working Group (SAPWG) web page at https://content.naic.org/cmte_e_app_sapwg.htm.

Current Statutory Hierarchy (2024 AP&P Manual):

V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1

SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[1] (FASB Codification or GAAP guidance)

Level 2

Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)

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Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number

- For the sub-category 'Backed by Debt Securities,' clarify in the instructions that Debt Securities could be reported on either Schedule D or Schedule BA because it fails the bond definition.
- For the electronic-only column 'Percentage of Collateral to the Collateral Loan,' rename the column 'Current Overcollateralization Percentage' for consistency with the Schedule D column.

<u>AVR</u>

- Consider renaming 'Backed by SSAP No. 48 Investments' to 'Backed by Investments in Joint Ventures, Partnerships, or Limited Liability Companies' (as reported in Schedule BA) for consistency.
- Consider renaming 'Backed by Residuals…' to 'Backed by Residual Tranches or Interests…' for consistency with the Schedule BA category for Residuals.
- Clarify if this new Collateral Loan section should be ahead of or after the newly adopted Capital/Surplus Note section of the schedule.
- Consider modification to the instructions to clarify that amounts include only admitted collateral loans.

Interested parties also suggest clarification from the Working Group if there should be a crosscheck between the newly adopted Note 5S Collateral Loans to the revised Schedule BA category for Collateral Loans, as the sub-categories are different.

The Working Group seeks feedback on whether 'collateral loans backed by mortgage loans' should be part of the new collateral loan category or remain under 'investments with underlying characteristics of mortgage loans' for now. While aligning the AVR and Schedule BA would streamline crosschecks, interested parties prefer continuing the current interim solution until the Life Risk-Based Capital Working Group examines the collateral loan section. Interested parties concur that the mortgage section could need to match the lines referenced in LR009 of the Life Risk-Based Capital Report if that working group desires to continue having these items feed LR009 instead of LR008 within the Life Risk-Based Capital Report. The Life Risk-Based Capital Working Group's initial proposal will provide the necessary detailed AVR lines to support data pulls between filings. We look forward to collaborating with NAIC staff and other groups as we finalize categories within the AVR.

<u>Recommendation</u>:
NAIC staff recommend that the Working Group re-expose this agenda item without revisions and resume discussion once comments have been received on the exposed blanks proposal. (The blanks proposal was exposed on November 6, 2024, for a 90-day comment period end f*FebrusaryTf 1.rNAIax

flow through to LR008. If reported with other Schedule BA items with underlying mortgage loans, they would flow through to LR009.)

Although NAIC staff suggests Working Group discussion on this dynamic, it may be most beneficial to receive information from interested parties on which reporting line(s) in AVR the collateral loans backed by mortgage loans will be reported in 2024 and how reporting entities determined which reporting line to utilize. If supported, this information can be requested specifically as part of the re-exposure.

Beginning with year-end 2024, a data-captured disclosure in Note 5T will detail the collateral supporting mortgage loans by broad categories. Although it is too late to expand on the data-capturing for year-end 2024, if collateral backed by mortgage loans will be divided significantly in AVR due to differing characteristics, consideration could occur to expand on the note to capture this information, so regulators know how collateral loans backed by mortgage loans are being reported in AVR. The following details the various AVR lines that could be used:

Line Number	INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS
	In Good Standing Affiliated:
38	Mortgages – CM1 – Highest Quality.....
39	Mortgages – CM2 – High Quality ....
40	Mortgages – CM3 – Medium Quality....
41	Mortgages – CM4 – Low Medium Quality
42	Mortgages – CM5 – Low Quality..........
43	Residential Mortgages – Insured or Guaranteed
44	Residential Mortgages – All Other......
45	Commercial Mortgages – Insured or Guaranteed
	Overdue, Not in Process Affiliated:
46	Farm Mortgages....................................
47	Residential Mortgages – Insured or Guaranteed
48	Residential Mortgages – All Other......
49	Commercial Mortgages – Insured or Guaranteed
50	Commercial Mortgages –- All Other....
	In Process of Foreclosure Affiliated:
51	Farm Mortgages....................................
52	Residential Mortgages – Insured or Guaranteed
53	Residential Mortgages – All Other......
54	Commercial Mortgages – Insured or Guaranteed
55	Commercial Mortgages – All Other.....
56	Total Affiliated (Sum of Lines 38 through 55)
57	Unaffiliated – In Good Standing With Covenants
58	Unaffiliated – In Good Standing Defeased With Government Securities
59	Unaffiliated – In Good Standing Primarily Senior
60	Unaffiliated – In Good Standing All Other
61	Unaffiliated – Overdue, Not in Process .
62	Unaffiliated – In Process of Foreclosure
63	Total Unaffiliated (Sum of Lines 57 through 62)
64	Total with Mortgage Loan Characteristics (Lines 56 + 63)

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Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-16 (Julie)	Repacks and Derivative Wrapper Investments	11 – Agenda item	Comments Received	IP – 4

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As an overview of a special purpose vehicle (SPV) "repack," the structure consists of an SPV acquiring a debt security and reprofiling the cash flows by entering a derivative transaction with a derivative counterparty (known as "credit repacks"). The redesigned debt instrument (reflecting the combined debt security and derivative) is then sold to an investor. NAIC staff has recently received calls on the classification of repacks under the bond definition, but the discussions of these transactions have identified that additional guidance may be warranted to ensure consistent reporting of these transactions within the statutory financial statements. From the discussions, there are initiatives for these combined investments to become more prevalent with U.S. insurance entities, but investment firms have noted that these investments are already common in other countries.

As a key element, repacking (and potentially other derivative wrapped debt structures) takes two separate items (debt security and derivative) and combines them into one instrument that resembles a debt security. This is done at an SPV, with the SPV issuing a new debt security to the reporting entity. From discussions, there are several variations of the derivative components that can be combined with the debt security. Some of them are very simple (such as a cross-currency swap), but others are complex, altering both the amount and timing of cash flows. The structures can be customized allowing for ongoing innovation, benefiting insurers with the ability of entering derivative transactions to appropriately reduce risk, but noted difficulty in the ability to

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recommends that this agenda item be limited to sponsoring blanks revisions to clarify the guidance on the bond disposal/acquisition schedules (as shown in the agenda

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Statutory Accounting Principles (E) Working Group
Meeting Agenda
November 17, 2024

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2024-20: Restricted Asset Clarification
2. Ref #2024-21: Investment Subsidiary Classification
3. Ref #2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards
4. Ref #2024-23: Derivative Premium Clarifications
5. Ref #2024-24: Medicare Part D – Prescription Payment Plan
6. Ref #2024-25: SSAP No. 16 ASU Clarification
7. Ref #2024-26EP: Fall 2024 Editorial Revisions

Ref #	Title	
2024-20 (Julie)		

regulators have a better picture of the assets that are restricted as pledged, not under the exclusive control of the reporting entity or that are earmarked (such as modco/FWH) for a specific purpose.

programs which receive a charge of 0.0020. (Assets pledged as collateral to the FHLB are adjusted in the formula based on various factors.)

- In the P/C and health RBC formulas, the restricted assets captured in the GI are pulled directly to PR014 and XR005 respectively, with a 0.010 charge except for conforming security lending programs which receive a 0.002 charge.

The specific excerpts from SSAP No. 1, Note 5L, the applicable GIs and RBC formulas have been captured in the authoritative language section. The categories are also listed to assess consistency across companies and enable future discussions. NAIC staff recommends that the SAPWG sponsor a blanks proposal to incorporate Annual Statement instruction revisions.

- Situations have been identified in which companies have reported Schedule BA items (in scope of SSAP No. 48) as “investment subs” for RBC look through although those investments should not be captured within the classification. The concept for an “investment subsidiary” is for items reported as SCAs in scope of SSAP No. 97 with common and/or preferred stock ownership.

- Questions have been raised on whether companies can utilize the concept of an “investment sub” to avoid statutory accounting provisions for underlying assets but receive favorable RBC impact as if the SSAP criteria had been met. (For example, whether a company utilize the bond RBC factors for a debt security held within an investment subsidiary without verifying that the debt security would qualify as a bond under SSAP No. 26—Bonds or use CRP ratings to determine RBC when the asset may have required an SVO-assigned designation if held directly.)

- Questions have been received on how companies comply with Life RBC LR044 instruction for Affiliate Type 4 “The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.” Specifically, the measurement method for the SCA pursuant to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities (audited U.S. GAAP equity) would not be consistent with the measurement of the assets if the assets were held directly (statutory basis). Questions arise whether the underlying assets within the investment subsidiary are converted to statutory basis of accounting prior to computation of RBC charge. In addition, there were questions as to how the RBC after covariance is calculated for investment subsidiaries.

- According to Annual Statement instructions, investment subsidiaries also need to apply a “look-through” approach in Asset Valuation Reserve (AVR) calculation. However, diversity in practice has been observed and for companies that utilize Lines 5 – 14 of the AVR Equity and Other Invested Asset Component table to calculate AVR, the computation is not transparent.

- Questions have been raised on the current annual statement instructions for D-6-1 regarding the “imputed value on a statutory basis” and the direction for nonadmittance of the excess or reclassification in the “all other affiliates” category. Schedule D-6-1 does not drive the amount reported on balance sheet, as that amount is pulled from Schedule D-2-2, Common Stocks. Further, the A/S instructions for D-6-1 would not override the SSAP guidance that prescribes the measurement and admittance requirement as that is governed by SSAP No. 97, which is higher in the statutory hierarchy. These A/S instructions regarding the “imputed statutory value”egar6( )]7 x

Adequacy (E) Task Force and related RBC groups with a request for revisions. (Determination on whether this is a SAP classification or a new SAP concept will be based on the action directed.)

Potential Actions:

1) Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries). By incorporating in SSAP, consideration can be given as to prescribing the measurement method and a potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and admittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97.)

2) Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary. As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.

3) Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries. If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

Ref #	Title	

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to adopt with modification ASU 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards within SSAP No. 104—Share-Based Payments. The proposed revisions to SSAP No. 104 are illustrated within the Form A.

Ref #	Title	Attachment #
2024-23 (Wil)	Derivative Premium Clarifications	D – Form A

Interpretation (INT) 05-05: Accounting for Revenues Under Medicare Part D Coverage provides high-level accounting guidance on the current Part D program. INT 05-05 includes some basic guidance, but primarily provides guidance by referring to existing statements for specific aspects of the program.

A unique aspect of the updated program is having the insurer pay the pharmacy at the point of sale and seek reimbursement from enrollees. Most of the existing statutory accounting guidance on amounts recoverable from enrollees contemplates premium receivables or amounts due from a governmental payor.

Statutory accounting questions include 1) where to report the initial point of sale payment to the pharmacy and the

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

a. Review of U.S. GAAP Exposures (Jason – Attachment I)

The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in Appendix F—Policy Statements.

b. Update on the IMR Ad Hoc Subgroup – (Julie)

The IMR Ad Hoc group has met regularly since their first meeting in Oct. 2023. Since the Summer National Meeting, the discussions have focused on IMR from reinsurance transactions. The reinsurance discussion is complex, and after assessing application/interpretation of existing guidance, the group has directed a reassessment of guidance. With this approach, it is intended that principles for accounting/reporting of IMR in response to reinsurance transactions (including for the cedent, assuming entity and in the event of recapture) will be established for application.

c. Update on the Bond Project Implementation / Bond Small Group – (Julie)

The Bond Small Group has currently concluded their regular meetings. The group addressed the items presented and referred the question-and-answer guide to the Working Group. The group may resume future discussions as necessary based on issues or questions raised.

d. Use of 3rd Party Vendors / Checklists to Determine Bond Definition Compliance / Classification

e. IAIS Audit and Accounting Working Group (AAWG Update) – (Julie)

Julie Gann and Maggie Chang (NAIC) monitor IAIS discussions. There have been no significant discussions since the Summer National Meeting. Beginning in November 2024, it is anticipated that NAIC staff will be involved in reviewing comments received on the exposed IAIS climate risk materials and proposing revisions to the application paper.

This update simply intends to inform the SAP.00nAn otv0 (v38 Tw(since the Summen0105 TwTc (c.)Tj /TT6 1 T