

Fall 2024

NAIC Fall National Meeting

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NAIC's Statutory Accounting Principles Working Group

The NAIC's Statutory Accounting Principles Working Group held a national meeting on November 17, 2024. The following updates pertain to investment accounting.

Adopted Items with effective date of January 1, 2025

Ref #2019-21: INT 24-01 – Principles-Based Bond Definition Implementation Questions & Answers

This item aims to address issues of implementing the principles-based bond project that have been brought up from the industry to the Bond/AICPA sub-group. It explains how SAP guidance should be applied to specific investment structures or characteristics.

This item was exposed via Evote on October 4, 2024. Three additional Q&A topics, (commercial mortgage-backed securities interest-only strips and single asset single borrower investments (SASB)), were added.

This item adopts the Q&A in a new interpretation INT 24-01 to SSAP No. 21 – Other Admitted Assets and SSAP No. 26 – Bonds with the edits suggested by interested parties. Being included as an interpretation, the guidance in the Q&A is captured as Level 2 of the hierarchy.

The SAPWG will send a referral to the P&C and Health RBC Working Group for debt securities that fail the new bond definition and will be moved to Schedule BA. It will inquire if the working groups should consider more granular RBC reporting based on SVO-assigned designations.

The SAPWG directed staff to work with the industry on potential slight revisions to SSAP No. 41 – Surplus Notes for the capital notes distinction. Staff was also directed to create a new agenda item to consider capturing issue papers in Level 5 of the statutory hierarchy, even though the interested parties suggested Level 2 or 4. NAIC staff said Level 5 is more appropriate to prevent any unintended conflicts with other sources of statutory guidance.

Ref #2024-17: Clearly Defined Hedging Strategy SSAP No. 108 – VM-01

This item updates the definition of a clearly defined hedging strategy (CDHS) in SSAP No. 108 – Derivatives Hedging Variable Annuity Guarantees, to reflect the revised guidance in the 2023 version of the Valuation Manual (VM-01). NAIC staff emphasized that only references to the CDHS are being revised to VM-01, and other references to VM-21 are retained as they are product-specific to variable annuity contracts.

Ref #2024-18: Clarifications to New Market Tax Credit Project

The SAPWG adopted 2022-14 at the summer national meeting, which revised SSAP No. 34 – Investment Income Due and Accrued, SSAP No. 48 – Joint Ventures, Partnerships and Limited Liability Companies, SSAP No. 93 – Low Income Housing Tax Credit Property Investments and SSAP No. 94 – Transferable and Non-Transferable State Tax Credits to expand and amend statutory accounting guidance to include all tax credit investments regardless of any structure, type of state or federal tax credit program, and all state and federal purchased tax credits. The NAIC staff received questions from public accounting firms on the conflicting accounting guidance and example journal entries. Both interested parties and NAIC staff agreed that the journal entries accurately reflected the accounting for the recognition and utilization of tax credits.

It revises SSAP No. 93 paragraph 14a and SSAP No. 94 paragraphs 9 and 10 to match the example journal entries. It replaces “Low Income Housing Tax Credit Property Investments” with “Joint Ventures, Partnerships and Limited Liability Companies which allocate tax credits” in SSAP No. 48 paragraph 1.

Exposed Item with Comment Deadline of December 9, 2024

Ref #2024-26EP: Fall 2024 Editorial Revisions

This item proposes revising SSAP No. 26 paragraph 39e to clarify the scope of the annual audited disclosure, which shall include investments receiving bond treatment by reporting categories.

It will be discussed in the next SAPWG meeting on December 17, 2024.

Exposed Item with Comment Deadline of January 31, 2025

Ref #2023-28: Collateral Loan Reporting

This item was exposed at the summer national meeting. The NAIC staff recommended re-exposing it without revisions and resuming discussions once comments are received on the exposed blanks proposal (2024-19BWG) by February 6, 2025. It will allow concurrent exposure with the Blanks Working Group on its proposal.

The interested parties suggested retaining the interim solution that allows collateral loans backed by mortgage loans to be reported in lines 38-64 on AVR, which captures Joint Ventures, Partnerships, or LLC structures with the underlying characteristics of mortgage loans. They do not think it's necessary to create a separate reporting category in the AVR. The NAIC staff is concerned the insurers may not know the specifics of the underlying mortgages backing collateral loans for proper reporting and the collateral loans will be bifurcated in AVR and RBC reports. The collateral loans are currently reported on LR008 while the investments with underlying mortgage loans are reported on LR009. The SAPWG is seeking feedback from the interested parties on which reporting lines in AVR they use to report the collateral loans backed by mortgage loans in 2024 and the rationale behind their decisions about which reporting line to utilize.

It proposes creating six sub-categories and two electronic columns for collateral loans on Schedule BA with an anticipated effective date of January 1, 2026.

Ref #2024-20: Restricted Asset Classifications

This item proposes adding clarifying language to SSAP No. 1 – Accounting Policies, Risks & Uncertainties, and Other Disclosures, and the annual statement instructions/illustrations for the restricted asset disclosure in Note 5L specify how modified coinsurance (modco) and funds withheld assets reported within a ceding company's financial statements shall be captured. It proposes adding a new component to the existing disclosure to identify and explain differences between Note 5L and general interrogatories 26 for the regulator and NAIC staff to assess consistency across companies and enable future discussions.

It proposes sponsoring a blanks proposal to incorporate annual statement instruction revisions.

Ref #2024-21: Investment Subsidiary Classification

This item originates from questions received on the classification of investments as investment subsidiaries in Schedule D Part 6 Section 1 and in the Life RBC formula on pages LR042, LR043, and LR044. It is noted that some insurers reported BA assets, e.g., Joint Ventures, Partnerships, or Limited Liability Companies as investment subsidiaries on Schedule D Part 6 Section 1 for RBC look through when SCAs in scope of SSAP No. 97 should be in common and/or preferred stock form.

Subsidiary, Controlled, or Affiliated Companies that have no significant ongoing operations other than to hold assets for the reporting entity or its affiliates are considered investment subsidiaries and are reported based on the audited US GAAP equity value pursuant to SSAP No. 97 paragraph 8.b.ii unless the SCA is an insurance company or engages in specific transactions on behalf of the reporting entity. They are admitted if the parameters of the SSAP are met, which includes an audited financial statement supporting the US GAAP equity value. Assets transferred between reporting entities and those SCA should be recognized at fair value, but any gain from the transfer is deferred until the assets are no longer held by affiliates.

The NAIC is concerned with utilizing the concept of an "investment subsidiary" to avoid SAP guidance for underlying assets but receives lower RBC charges as if the SSAP criteria had been met, e.g., debt security would qualify as a bond under SSAP No. 26 or CRP ratings would be used as if the security is eligible for filing exempt. The NAIC staff noted the amount reported in the RBC formula is significantly greater than the amount reported on D-6-1 and AVR Equity Component from the 2023 filing.

The SAPWG directed NAIC staff to work with the industry to clarify SAP guidance as to prescribing the measurement method and potential non-admittance thresholds if the underlying assets would be non-admitted if held directly, sponsor blanks proposals to detail the underlying assets held within an investment subsidiary and send referrals to the Capital Adequacy Task Force and related RBC Working Groups for RBC reporting changes.

Ref #2024-23: Derivative Premium Clarification

NAIC staff noted that some insurers captured derivative premium costs in the calculation of realized loss and the Interest Maintenance Reserve (IMR). NAIC staff emphasized that derivative premiums should be amortized over the life of the derivative contract per SSAP No. 86, so they would not be a component in determining realized losses at expiration and should not be included in losses capitalized into IMR.

To remove the confusion, this item proposes standardizing the terminology used for derivative financing premiums between SSAP No. 86 and the annual statement instructions for Note 8A(8) and Schedule DB Parts A & B and Sections 1 & 2. It proposes adding clarifying language to SSAP No. 86 paragraphs 6 and 19 that unpaid or deferred premiums are considered as financing premiums, and they are not allowed to be included in realized losses capitalized to the IMR as they are not considered as an underlying in the derivative contract. They should be amortized over the life of the derivative contract with the amortization recorded as an adjustment to net investment income or other operating income that is consistent with the reporting of the derivative contract.

Other Items*Ref #2024-16: Repacks and Derivative Wrapper Investments*

The original proposal suggested bifurcating a credit repack investment into a debt instrument for bond treatment assessment and a derivative for reporting on Schedule DB. The interested parties commented that reporting the derivative on Schedule DB was inappropriate when the insurer does not control or own the derivative directly. The insurer also would not have the requisite information to complete Schedule DB. The SAPWG recommended modifying this agenda item to eliminate the bifurcation guidance and sponsoring blanks revisions to clarify the guidance on bond disposal/acquisition schedules to ensure that the sale of a security to an SPV for which a debt security is acquired back from the SPV with derivative wrapper or components, is considered as disposal and acquisition.

Item adopted between 2024 Summer and Fall National Meeting*Ref #2024-01: Bond Definition – Debt Securities Issued by Funds*

Debt securities issued by non-SEC registered funds that reflect operating entities can qualify as issuer credit obligations, but debt securities issued for the raising of debt capital (e.g., feeder funds) are required to be assessed as asset-backed securities.

Blanks Working Group exposed 2024-14BWG with a comment deadline of February 6, 2025. It proposes updating the issuer credit obligation line category from “Bonds Issued from SEC-Registered Business Development Corps, Closed-End Funds & REITs” to “Bonds Issued by Funds Representing Operating Entities.”

It was adopted by Evote on September 12, 2024.

NAIC Blanks Working Group

The Blanks Working Group of the NAIC held a virtual meeting on November 6, 2024. The following updates pertain to investment accounting.

Exposed Items with a comment deadline of February 6, 2025 (Effective date: December 31, 2025 unless stated otherwise)

Ref #2024-13BWG – Editorial items for annual investment schedules (SAPWG 2019-21)

It intends to show all annual editorials for the PBBB project in one proposal instead of the editorial lists over multiple Blanks proposals.

It incorporates INT 24-01 PBBB Implementation Q&A and some instructions clean-up into the changes, e.g., add clarifying instructions for small business administration loans (SBA) are reported as agency commercial mortgage-backed securities – fully guaranteed, small business investment company (SBIC) are reported as agency commercial mortgage-backed securities – not/partially guaranteed, update CUSIP reference, call date split into two columns – one for “make whole call” and another one for the rest of bonds, expected payoff date at acquisition instead of origination date, etc.

Ref #2024-14BWG – Update Issuer Credit Obligation line category for Bonds Issued by Funds Representing Operating Entities (SAPWG 2024-01)

SAPWG adopted 2024-01, which expands the bonds issued by any funds that represent operating entities in the scope of Issuer Credit Obligation. This proposal updates the ICO line category from “Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITs” to “Bonds Issued by Funds Representing Operating Entities” in the annual and quarterly blanks instruction for Investment Schedule General Instructions, Summary Investment Schedule, Summary by Country, Schedule D Part 1A, Schedule D Part 1 Section 1, Schedule D Parts 3, 4 & 5, Schedule DA Part 1, Schedule DL Parts 1 & 2, Schedule E Part 2.

Ref #2024-16BWG – Removes General Interrogatory Line 13 - Mortgages and Real Estate from the Quarterly Investment (Effective March 31, 2026)

This item proposes removing GI 13 as mortgages and real estate which are not allowed to be reported as short-term investments.

Ref #2024-19BWG – Updates Schedule BA line categories and instructions for the expansion of collateral loans and adds columns for fair value of collateral backing and the percentage of the collateral. Updates the Asset Valuation Reserve “AVR” instructions and blank for the added collateral loan line categories. (SAPWG 2023-28)

This item aims to expand the reporting for collateral loans to enable regulators to quickly identify the type of collateral backing the loans. It proposes adding six sub-categories for collateral loans and two new columns for fair value of collateral backing the collateral loan and current over-collateralization percentage to the collateral loan. It proposes adding new lines 93 through 104 for collateral loans on AVR Equity Component

Other Editorial Changes

It proposes removing administrative symbol for Subscript S, e.g., S & SYE from Schedules BA and D, removing the Revised or “R” on all SSAP references throughout all statements instructions (SAPWG 2024-14EP), removing line 60 from AVR Default Component as line 58 Schedule DA Mortgages line was removed (2024-02BWG), and adding clarifying language to

Schedule D Part 1B that amounts in column 8 which should equal the amounts in column 1 for 2025 Q1.

NAIC Valuation of Securities Task Force

The Valuation of Securities Task Force of the National Association of Investment Commissioners (NAIC) held a national meeting on November 17, 2024. The following updates pertain to investment accounting.

Adopted Items

Proposed Amendment to the SVO P&P Manual to Require Annual Reviews of Regulatory Transactions

This item adds clarifying language to SVO P&P Manual Part Three paragraph 311 that the insurers can self-assign designation 6RT only. These administrative symbols, e.g., RTSYE, RTSIF, and RTSZ should not be used unless the RTS securities were issued within 120 days of the reporting period end date. It adds three new paragraphs 313-315 for the production of SVO analytical values for regulatory transactions to clarify an annual review for regulatory transactions is required. The insurers are required to notify the SVO or Structured Securities Group (SSG) of any material changes and the insurer’s limited ability to self-assign an SVO analytical value 6RT only. It emphasizes that the SVO analytic value is only applicable for the calendar year of the request and does not represent a permanent assessment of the risk of the regulatory transaction. It will be withdrawn the following calendar year. This is consistent with all other initial and annual assessments of investment risk. Insurers or the insurance department may request an updated SVO analytical value for a subsequent calendar year. The insurer is required to provide the SVO or SSG with the necessary information for its review and provide promptly for any additional information request by the SVO or SSG. SVO or SSG will let the insurer and insurance department know of the updated SVO analytic value once they finish their assessment.

Proposed Amendment to the SVO P&P Manual to Update the List of NAIC Credit Rating Providers and the NAIC Use of CRP Credit Ratings

It updates the review date from February 2, 2021, to June 28, 2024, and fixes one editing error in SVO P&P Manual Part Three paragraph 24, which lists the credit

rating providers (CRP) along with the classes of credit ratings for which they have CRP status.

As some insurers are concerned they might not be able to utilize some of the CRP ratings due to different definitions of asset-backed securities between the SEC and the NAIC, it adds clarifying language to SVO P&P Manual Part One paragraph 57 that the NAIC only recognizes CRP ratings for asset classes that CRP is registered with the SEC as an NRSRO and SEC definitions are distinct from those used for statutory accounting asset classification purposes in the SSAP. CRP ratings are allowed to be utilized for filing exempt processes as long as the security is in the asset classes defined by the SEC.

Remove References to Subscript-S and Update References to Investment Risk

It was noted that all references to Subscript S, which is the SVO Administrative Symbol for non-payment risk, would be removed after the adoption of the updated definition of an NAIC Designation at the 2024 summer national meeting as that update removes the concept of “other non-payment risk.”

It removes all references to Subscript S and replaces credit risk or credit quality with investment risk throughout the SVO P&P Manual.

Other Items

Status of Private Rating Letter Rationale Report Filings for 2024

Charles Therriault, the SVO director, said the rationale report filing requirement was adopted three years ago, and they hadn’t deactivated any private letter ratings for securities that were issued after 2021 and failed to fulfill the rationale report filing requirement. They understood insurers would need some time to fulfill that requirement for PLR ratings that are issued in December 2024, but any PLR ratings that were issued this year before December are going to be removed. If material discrepancies are found with the data, the SVO will defer deactivation until the issue is remediated. Insurers will have to file them with the SVO for NAIC Designation within 120 days if they can’t provide a rationale report for the PLR securities were issued after 2021. The SVO will propose a permanent solution next year.

Carrie Mears, the Chair of the VOSTF, reminded the industry to contact NASVA if they have any data issues regarding the PLR ratings rationale report. She praised the NASVA for pointing out different data issues and helping the SVO to identify the system issues.

Staff report on the proposed CLO modeling methodology and the CLO Ad Hoc Working Group

Eric Kolchinsky, the SSG director, said he would set up an ad hoc group meeting in the next few weeks to discuss the recent development. They selected a preliminary probability distribution and put together the documentation. The approach used was calculating an approximate pool of 1800 CLOs that had been modeled by the SSG, and the results are on the SSG website, generating a number of random probability distributions and selecting the one that minimizes the mean squared error “MSE,” which is the difference between the probability-weighted RBC on all tranches. The selected scenarios are further fine-tuned to lower the MSE. They will present the algorithm, including the code work and risk measures, at the next ad hoc meeting. They will review the industry comments on the methodology. He asked the industry if they could present a probability distribution that could further lower the MSE. They will present monthly results and risk measures in early 2025 Q1.

Filing with the SVO CMBS-SASB moving to Schedule BA in 2025 because of the changes to SSAP No. 26 and 43

Kolchinsky said the SSG was ready to begin modeling commercial mortgage-backed securities – single asset single borrower “SASB” unitranche, which will be moved to Schedule BA next year due to lack of substantive credit enhancement. He asked the industry to send him candidate CUSIPs for the SASB unitranche as the results may be available for 2024 year-end. Securities are required to meet the initial sufficient filing and ongoing information sufficiency requirements as described in the SVO P&P Manual Part 4 Paragraph 9. The initial information sufficiency requirement has a safe harbor per SVO P&P Manual Part 4 Paragraph 17, e.g., at least two section 17(g)-7 reports issued by different CRPs are publicly available, or the deal has been publicly registered under the Federal Securities Act of 1933. If the safe harbor has not been met, the insurer can file the information with

the SSG to meet the requirement per SVO P&P Manual Part 4 Paragraphs 11-15. The ongoing information sufficiency requirement means that there is relevant performance information available in a third-party modeling software platform (generally Trepp) from an original source (like a Trustee).

NAIC Capital Adequacy Task Force

The Capital Adequacy Task Force of the NAIC held a national meeting on November 18, 2024. The following updates pertain to investment accounting.

Exposed Item with a comment deadline of February 1, 2025

Principles-Based Bond Project for P&C and Health (2024-25-CA)

Due to the principles-based bond definition project being adopted by the SAPWG (2019-21) and the relevant blanks changes being adopted by BWG (2023-06BWG MOD, 2023-07BWG MOD, 2023-12BWG MOD), it proposes splitting long-term bonds into two columns – Issuer Credit Obligations and Asset-Backed Securities on RBC reports – bonds page (PR006, XR007). This item proposes removing “Other US Government Obligation” from line 1 on PR015 & XR006 – Off-Balance Sheet Collateral and Schedule DL, Part 1 Assets and updating reference on various RBC reports.

Tax Credit Investments for P&C & Health (2024-26-CA)

This item proposes updating the RBC instructions and blanks for the adopted SAP guidance changes in SSAP No. 93 – Investments in Tax Credit Structures and SSAP No. 94 – State and Federal Tax Credits resulting from the New Market Tax Credits Project (SAPWG 2022-14) and the corresponding changes in annual statement blanks and instructions (2024-11BWG MOD).

The proposal addresses the reporting structural changes only but does not address the potential factor change resulting from the expansion of the scope of accounting guidance and types of tax credit investments captured in the SAP guidance. It proposes replacing five “Low-Income Housing Tax Credits” categories with four “Tax Credit Investments” categories.

It proposes adding lines for non-admitted and net collateral loans to XR008 to align Health with P&C on collateral loans. This includes pulling the total amount from Schedule BA and pulling the non-admitted amount from Note to Financial Statement 5S.

NAIC Risk-Based Capital Investment Risk and Evaluation Working Group

The Risk-Based Capital Investment Risk and Evaluation Working Group of the National Association of Investment Commissioners (NAIC) held a virtual meeting in lieu of the fall national meeting on October 22, 2024. The following update pertains to investment accounting.

Other Items

Updates from the American Academy of Actuaries on Structured Securities RBC Project

Steve Smith, C1 Working Group Chair said Moody’s graciously provided them with a large amount of all existing CLOs, lots of analytical level data, individual tranche of tranches, and the underlying collateral. The Structured Securities Group “SSG” has been providing them with the economic scenarios. The results of those scenarios have been published on the SSG website. He has been working closely with Eric Kolchinsky, SSG director, on gathering information in the right format, comparing candidate input data from Moody’s against output from the SSG to look for any analytical values that predict risks, if any. The goal is to find three CLO’s attributes (similar to commercial mortgage loans use three comparable attributes, e.g., Loan-to-value, debt service coverage ratio, and the underlying property type) that can help risk bucketing and will then follow the sample principles to other asset-backed securities “ABS.” CLO is the easiest among all ABS as it is easier to collect the underlying collateral data. They may need to make other judgment calls for other ABS. Kevin Clark, the Iowa regulator, asked Steve Smith to also check the reliability of those candidate attributes. Steve Smith said the current C1 bond factors were determined based on the risk of the portfolio and not individual security level. There are base factors and recalibration issuer factors. The issuer-level data is very different for ABS than corporate bonds.

Fund Review Project

It proposes looking at three types of assets (exchange-traded funds, US SEC Registered Mutual Funds, and Private Funds) that predominantly invest in bonds, and thus, they are similar in actual risk. Two of them get bond RBC factors, but one of them (US SEC Registered Mutual Funds) gets equity factor.

Kevin Clark, Iowa regulator, said collateralized fund obligations should not be subject to fund review as they should be reported as ABS on Schedule D Part 1 Section 2 (ABS) or non-bond debt securities on Schedule BA and CLO equity tranches should be reported as residual tranches on Schedule BA.

Life-Risk Based Capital Working Group

The Life-Risk Based Capital Working Group of the NAIC held a virtual meeting in lieu of the fall national meeting on October 23, 2024. The following updates pertain to investment accounting.

Exposed Items with Comment Deadline of January 6, 2025

2024-24-L Schedule BA Proposal for Non-Bond Debt Securities

Due to the principles-based bond definition project being adopted by the SAPWG (2019-21) and the relevant blanks changes being adopted by BWG

(2023-06BWG MOD, 2023-07BWG MOD, 2023-12BWG MOD), it proposes moving cash equivalent bonds from LR012 – Miscellaneous Assets to LR002 – Bonds Page and removing hybrids category from LR010 – Asset Concentration. This item proposes other changes that are not related to the PBBD project, e.g., update instructions for LR045 through LR048 – Modco or Funds Withheld Reinsurance Agreements.

2024-21-L regarding Investments in Tax Credit Structures

This item proposes updating RBC instructions and blanks (LR007, LR010, LR030-31) in response to the conceptual changes in SSAP No. 93 – Investments in Tax Credit Structures and SSAP No. 94 – State and Federal Tax Credits (SAPWG 2022-14) and blanks changes (2024-11BWG MOD) effective January 1, 2025. It was noted that the RBC instructions included duplicate reporting guidance for low-income housing tax credit (LIHTC) investments.

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