

NAIC Spring 2024

National Meeting Update

Pg. 2 Statutory Accounting Principles (E) Working Group (SAPWG)

Dedicated to maintaining accounting principles and providing periodic updates to guidance as it develops. The SAPWG focuses on discussions that result in changes to the *Accounting Practices and Procedures (AP&P) Manual* and related SSAPs.

Pg. 6 Blanks Working Group

Addresses changes made to the annual statement blanks and instructions, including technical changes and clarifications. Primarily dedicated to the development of new corporate bond factors for life insurance companies.

Pg. 8 Valuation of Securities (E) Task Force (VOSTF)

Dedicated to designations, valuations, and the Securities Valuations Office (SVO) filing process as outlined in the *Purposes and Procedures (P&P) Manual* of the NAIC Investment Analysis Office.

Pg. 11 Risk-Based Capital Investment Risk and Evaluation Working Group (RBCIREWG)

Dedicated to reviewing RBC investment framework for all business types.

Pg. 12 Capital Adequacy Task Force (CADTF)

Dedicated to evaluating refinements to capital requirements for insurers.

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Statutory Accounting Principles Working Group

The Statutory Accounting Principles Working Group of the NAIC held virtual meetings on January 10 and February 20, 2024, and a national meeting on March 16, 2024. The following updates pertain to investment accounting.

Adopted Items

Ref #2019-21: SSAP No. 21R – Principles-Based Bond Project

The revised proposed accounting guidance for residuals was exposed during the last Fall National Meeting. Staff said no comments were received on accounting guidance for non-bond debt securities and no additional changes on the revised proposed accounting measurement method for residuals – effective yield method with a cap. It allows interest income recognition within both the allowable earned yield and cash flows received. Any excess cash flows received will reduce the book-adjusted carrying value. Insurers are allowed to utilize cost recovery methodology as a practical expedient, under which no interest income will be recognized until the book-adjusted carrying value reaches zero.

The staff incorporated some industry comments into this proposal. This included adding transition guidance that unrealized gains and losses would be realized on the effective date and allowed to be included in the initial basis of the investment, adding guidance that no audit is required for admittance when the residuals are in the form of joint ventures, partnerships, or limited liability companies as residuals shall follow the admittance guidance within SSAP No. 21R instead of SSAP No. 48. The proposal also removed the previously exposed guidance – paragraph 34 for reclassification is required when residuals cease to meet the definition of residual. Clarifying languages were added to paragraph 36 for other-than-temporary-impairment “OTTI” shall be recognized when the residual’s fair value is less than the reported book adjusted carrying value if the insurer elected cost recovery as the measurement method.

It is adopted with an effective date of January 1, 2025, but early adoption for residual tranches guidance is allowed. Staff didn’t think early adoption would create more inconsistencies as the current measurement method of residuals is already inconsistent across insurance companies.

Staff will sponsor blank changes which will be adopted in May 2024.

Ref #2022-14: New Market Tax Credits (NMTC)

It was re-exposed via e-vote on January 29, 2024, with a comment deadline of February 9, 2024. The shortened comment period was recommended in order to allow the adoption at the Spring National Meeting. It incorporated comments from the interested parties and regulators into this proposal which revises 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. 94R – Transferable and Non-Transferable State Tax Credits. One of the revisions to SSAP No. 93 paragraph 18 admittance test is now referred to as the prospective utilization assessment. It removes the initial assessment of the current portion of unallocated tax credits and is replaced with the requirements for insurers to perform the prospective utilization assessment only if certain conditions exist.

Interested parties also suggested changes for the reporting categories on Schedule BA. It proposes either removing all references to Low Income Housing Tax Credit (LIHTC) from the current reporting categories, i.e., Guaranteed, Non-Guaranteed, and all other LIHTC investments or keeping the same categories but having two sub-categories in each category unless there would be RBC factor changes for those tax incentive investments from the Capital Adequacy Task Force. They expect the RBC charges would stay the same as they currently are for LIHTC investments, i.e., 0.14% for Guaranteed, 2.6% for Non-Guaranteed, and 15% for all others but would need more information on the expected RBC charges in order to make any suggestions on the reporting categories.

NAIC staff recommends the SAPWG adopt the exposed

version with revisions to example 2 in SSAP No. 93 and direct staff to draft issue paper for both SSAP No. 93 and 94R to document the discussions and sponsor a blanks proposal on the annual statement reporting categories for tax credit investment to maintain the same categories but remove reference to LIHTC and update the instructions accordingly. A referral will be sent to the LRBCWG to review the RBC factors for the revised reporting category changes for tax credit investments.

It is adopted with the effective date of January 1, 2025.

Ref #2023-29: IMR/AVR Preferred Stock

It was exposed at the 2023 Fall National Meeting. It proposed removing the guidance that directs realized gains/loss and OTTI of all preferred stock to be allocated between IMR/AVR based on the NAIC designation and adding clarifying language that perpetual preferred stock, including the SVO-Identified Preferred Stock ETFs and mandatory convertible preferred stock regardless of redeemable or perpetual status, shall be reported as equities through AVR as they are measured at fair value under SSAP No. 32R.

It is adopted with the effective date of December 31, 2024.

**Exposed Item with Comment Deadline
May 31, 2024**

Ref #2024-01: Bond Definition – Debt Securities Issued by Funds

It was exposed at the last virtual meeting on January 10, 2024. It proposed revising paragraph 7.i and adding a new paragraph 12 to SSAP No. 26R and revising paragraph 32c to the draft issue paper (2019-21). It clarified bonds issued by funds representing operating entities are permitted as issuer credit obligations regardless of whether the funds are SEC-registered or not. Staff said the original guidance reference to the SEC registration was an easy approach to determine if a debt security from a fund qualified as an issuer credit obligation as SEC-registered funds have leverage limits on how much debt can be issued. The proposed change permits debt securities from non-SEC registered funds to qualify as issuer credit obligations as long as the funds are functioning as operating entities. It will align with the recently adopted definition of residual tranches.

As NAIC staff became aware of some inappropriate interpretations from the industry that proposed guidance allows debt issued from non-registered funds, e.g., rated notes or feeder funds backed by equity interests, collateralized fund obligations (CFOs), or other ABS structures, to be classified as issuer credit obligations (ICO) during the exposure period. Those comments go beyond the intent of NAIC staff. Staff emphasizes the proposed guidance was not intended to eliminate the assessment of feeder funds or other similar ABS structures as asset-backed securities (ABS). To ensure that the guidance is not inappropriately extrapolated, they recommend the SEC registration requirement be retained and ask for proposed language that helps with clarifying the types of debt securities issued by funds that should be considered as operating entities and define the extent of debt that may be issued to fund operations better. Staff reminds the industry of previously adopted guidance in SSAP No. 26R effective January 1, 2025 (2019-21), which limits the classification of ICOs to bonds issued by SEC-registered business development corporations, closed-end funds, or similar operating entities and debt issued by non-registered funds shall be assessed as ABS only. SEC registration is the key component for debt securities that could be classified as ICO.

Kevin Clark, the vice chair of the SAPWG, emphasized that the purpose of ABS is primarily to raise debt capital. The feeder fund's sole purpose is to raise capital for investors to invest in a master fund that primarily invests in debts. It is hard to understand why some would interpret the proposed revisions as allowing those structures to avoid ABS assessment.

Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement

It was originally introduced in 2022 to nullify INT 03-02 as it is inconsistent with SSAP No. 25 – Affiliates and Other Related Parties guidance regarding economic and non-economic transactions between related parties and can result in unrecognized gains or losses by allowing transfers of assets at amortized cost between affiliates for modifications to existing intercompany reinsurance pooling agreements. NAIC staff said it was not justified to have different treatment for modifying intercompany reinsurance pooling transactions and suggested narrowing down the usage of transfer of assets at book value to intercompany

pooling agreements only if the SAPWG members want to maintain this exception.

It proposes adding a new paragraph 4 to SSAP No. 25 that the transfer of assets shall be accounted for and valued following the SSAP No. 63 guidance, new paragraphs 8 and 12 to SSAP No. 63 that the transfer of assets at book value is restricted to intercompany pooling agreements, and a new disclosure requirement in paragraph 13.i. for the transfer of assets with fair value that is different from cost, amortized cost, book adjusted carrying value, and fair value of assets received or transferred by the insurer. NAIC staff asked if the SAPWG members want to add the Insurance Holding Company System Regulatory Act - Model#440 Form D filing requirement for domiciles to review the transferred assets.

Ref #2024-03: ASU 2023-08 Accounting for and Disclosure of Crypto Assets

The SAPWG adopted INT 21-01 which provides temporary statutory accounting guidance that directly held cryptocurrencies are non-admitted, in May 2021.

It proposes adding paragraph 4f to SSAP No. 20 – Non-admitted Assets and nullifying INT 21-01 upon the adoption of this agenda item.

Ref #2024-04: Conforming Repurchase Agreements

The SAPWG received a referral from the Life Risk-Based Capital Working Group who received the ACLI request to reduce RBC factor from 1.26% to 0.2% for repurchase agreements to converge with treatment for securities lending programs. Currently, the statutory accounting and reporting treatments for securities lending and repurchase agreements are different. Securities lending collateral is reported in Schedule DL while repo is not reported in any of the investment schedules. As the ACLI identifies that repo and securities lending transactions are similar forms of short-term collateralized funding for life insurers, with counterparties reflecting the key difference between the two funding structures. It warrants consistent reporting of the collateral received regardless of the legal form of the agreement. NAIC staff reviewed 2022 annual data that shows securities associated with securities lending transactions are declining while the securities associated with repo are increasing.

It proposes adding a new general interrogatory to capture conforming repurchase collateral and incorporating the conforming guidance into the annual statement instructions. NAIC staff noted that some insurers classify securities lending collateral as conforming even though the collateral reported in Schedule DL is outside the parameters of acceptable collateral. Some insurers may interpret that the conforming requirement is needed for the collateral received from the counterparty but not for the reinvestment of the original collateral.

The SAPWG directed NAIC staff to work with the industry in determining current interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral and requested that the LRBCWG defer consideration of the proposal until the SAPWG finished their findings.

Ref #2024-08: Consistency Revisions for Residuals

To ensure consistency in definitions and guidance for residuals, it proposes centralizing all residual guidance within SSAP No. 21R, revising residual guidance in paragraphs 4d and 10b in SSAP No. 26R, paragraph 3 in SSAP No. 30R and 32R, paragraphs 4c, 11a and 11b in SSAP No. 43R, paragraph 2 in SSAP No. 48, removing paragraphs 11c, 27 through 28, footnote 4 from SSAP No. 43R, and paragraphs 18 through 20 from SSAP No. 48R.

Proposed effective date is January 1, 2025.

Ref #2024-09: SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments

It proposes eliminating lingering references from SSAP No. 2R paragraphs 7 and 15 that imply that asset-backed securities (ABS), mortgage loans, or other Schedule BA assets are permitted to be reported in the scope of SSAP No. 2R.

Proposed effective date is January 1, 2025.

Ref #2024-10: SSAP No. 56 Book Value Separate Accounts

The guidance in SSAP No. 56 predominantly focuses on separate account products that the policyholder bears the investment risk, and the measurement method is fair value. However, it provides limited guidance

for assets supporting fund accumulation contracts, e.g. pension risk transfer or registered indexed-linked annuities and other similar general-account type products that have been approved by the state of domicile for reporting in the separate account, to be recorded as if they were held in the general account and measured at amortized cost. As there is currently no guidance as to transfers between the separate account and the general account, it is not clear if assets should be recognized at fair value. This current practice potentially impacts the Interest Maintenance Reserve (IMR).

NAIC staff is directed to work with the industry in determining current interpretations and suggestions for any revisions to SSAP No. 56.

Ref #2024-12: SSAP No. 27 Off-Balance Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk

It proposes removing the reference to FASB Statement No. 105 from SSAP No. 27 as FAS 105 was superseded by FAS 133, adding new paragraph 4 for the types of financial instruments that are out of scope of SSAP No. 27, e.g., insurance contracts, unconditional purchase obligations, etc. NAIC staff suggested adding other derivatives contracts and other financial instruments to Notes to Financial Statements – Note 16 Information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk.

Ref #2023-26: ASU 2023-06 Disclosure Improvements

It was deferred at the last Fall National Meeting to allow staff more time to consider any disclosure requirements that were applicable to statutory accounting. It proposes adding two new paragraphs, 22 and 32, to SSAP No. 15 that the amount and terms of unused commitments and lines of credit for financing arrangements including commitment fees and the conditions under which commitments or lines of credit may be withdrawn by short-term and long-term. It also proposes adding counterparty risk disclosure requirements to SSAP No. 103R for repurchase agreements and reverse repurchase agreements with any individual counterparty or group of related counterparties exceeds 10% of total adjusted capital and surplus. The requirement to disclose the weighted-average interest rate of repurchase liabilities

is suggested to be rejected for statutory accounting purposes.

Ref #2024-14EP: Removal of “Revised” or “R” identifiers from SSAP titles and references within the Accounting Practices and Procedures Manual.

“Revised” and “R” have been used to identify when a SSAP has been substantively revised. NAIC staff recommended removing them as several SSAPs have now had multiple substantive revisions after their initial adoption, e.g., SSAP No. 2R, 21R, 26R, 30R, 32R, etc.

Items that were discussed on February 20, 2024

Exposed Items with comment deadline April 19, 2024

Ref #2023-28: Collateral Loan Reporting

It was exposed at the 2023 Fall National Meeting. It proposed expanding the categories for collateral loans on Schedule BA and adding a paragraph 5 to SSAP No. 21R that collateral loans shall be reported by collateral type and an aggregate note disclosure shall identify the total, admitted, and non-admitted amount of collateral loans by collateral type.

The SAPWG adopted a new disclosure requirement in SSAP No. 21R paragraph 5 with an effective date of December 31, 2024, and sponsored a blanks proposal (2024-09 BWG) to data capture the collateral loan information which will enable the regulators to see how prevalent the collateral loan investments are held by the insurers and what is backing the collateral loans for year-end 2024.

It proposed re-exposing new reporting lines to Schedule BA for collateral loans with a comment deadline of April 19. NAIC staff requested feedback from industry and regulators on whether collateral loans backed by certain collateral types should flow through Asset Valuation Reserve (AVR) for an RBC impact as currently collateral loans don't flow through AVR at all. That decision was made based on a 1990 survey which identified insignificant investments in collateral loans by the insurers. Collateral loans were moved from Schedule C to Schedule BA when Schedule C was eliminated, and they were not mapped through AVR. Currently collateral loans get a flat RBC charge – 6.8% for Life insurers and 5% for P&C and Health insurers. The

proposed effective date is January 1, 2025, and may be pushed to January 1, 2026, if 2024-09 BWG couldn't be adopted by the BWG by August 1, 2024.

Dale Bruggman, the Chair of the SAPWG, said the collateral loan was moved from Schedule C to BA and all BA assets flow through to AVR except for collateral loans.

Referral was sent to the Life RBC Working Group for feedback on the AVR mapping.

Ref #2023-16: Schedule BA Categories

It was exposed during the last Fall National Meeting and was re-exposed on February 20, 2024. It aims to make the reporting categories of SSAP No. 48 investments, e.g., non-registered private funds, joint ventures, partnerships, or limited liability companies, consistent with the categories of residual tranches which are currently broken out by fixed income, common stock, and real estate.

As BWG received comments for 2023-12BWG, the SAPWG tried to address both 2023-12BWG and this agenda item (2023-16) simultaneously. Interested parties were not supportive of moving non-registered private funds to JV, partnerships, or LLC as some asset classes, e.g., warehouse loans, had been reported in the non-registered private fund category. They expressed their concerns about the unintended capital impacts unless AVR and RBC mapping are also updated. They said the proposed effective date of December 31, 2024, might be challenging and would like that changed to January 1, 2025, to align with the Bond Project. They understood why there were concerns about the BA assets reporting but they wanted to make sure to articulate the real issues. NAIC staff said that was concerning as some collateral loans are currently reported as private funds on Schedule BA. Kevin Clark, the Vice Chair of the SAPWG, asked the industry if more asset classes are reported as private funds other than collateral loans. Kevin stated that without knowing what is in that bucket, it is hard to make any determination. He reminded everyone at the Spring National Meeting that those warehouse loans should be reported in the collateral loan category with the underlying characteristics of mortgage loans and should not be continually reported in the category of non-registered private funds for 2024 year-end.

Adopted Item with effective date of December 31, 2023

Ref #2023-24: ASU 2016-13 Measurement of Credit Losses on Financial Instruments (CECL) and related subsequent ASUs in various SSAPs and INT 06-07

The SAPWG adopted revisions to reject CECL guidance as they are not applicable to statutory accounting

NAIC Blanks Working Group

The Blanks Working Group of the NAIC held a virtual meeting on February 21, 2024. The following updates pertain to investment accounting.

Adopted Items with effective date of December 31, 2024.

Ref #2023-13BWG MOD – Add new instruction and illustration under Note 5 – Investments for Net Negative (Disallowed) Interest Maintenance Reserve (IMR) and a new general interrogatory for a company attestation.

Adding new instruction and illustration for Notes to Financial Statement 5.S. – Companies admitting negative IMR are required to disclose.

It proposes adding both Notes to Financial Statement 5.S and adding a new general interrogatory to capture IMR disclosure quarterly for Net Negative (Disallowed) Interest Maintenance Reserve (IMR) per INT 23-01. This INT allows life insurers to admit net negative IMR up to 10% of total adjusted capital and surplus.

Exposed Items with a comment deadline of April 23, 2024.

Ref #2023-12BWG – Categorize debt securities on Schedule BA that do not qualify as bonds under SSAP No. 26R—Bonds or SSAP No. 43R—Loan-Backed and Structured Securities and are captured in the scope of SSAP No. 21R—Other Admitted Assets. (SAPWG 2019-21)

It proposes revisions to Schedule BA for new reporting lines for debt securities that are no longer in the scope of SSAP No. 26R or 43R per the Principles-based Bond Definition Project, e.g., lack of creditor relationship, lack of substantive credit enhancement, or lack of meaningful cashflows. Revisions also propose improving the BA schedule, e.g., removing

non-registered private funds reporting line to encompass Joint Ventures, Partnerships, and Limited Liability Companies as all of them are within the scope of SSAP No. 48. Dale Bruggman, the Chair of the SAPWG, said it was hard to understand why the non-registered private funds are not captured in the joint venture categories. From additional information the SAPWG received, those that have been reported as non-registered private funds, e.g., warehouse loans with underlying mortgages should be reported in the collateral loan category. Concurrently, the SAPWG also has another proposal to improve BA reporting structure for consistency across insurance companies. It clarified that all assets should be reported in delegated reporting lines, or any other class of assets if security can't fit into any delegated reporting lines. Proposed effective date is 1/1/2025.

To streamline the BA reporting, it proposes

- Combining Joint Ventures, Partnerships, or Limited Liability Companies with Non-Registered Private Funds.
- Including oil, gas releases, aircraft owned under leveraged lease arrangements, investments in extractive materials and timber deeds that are not owned within a partnership, LLC, or joint venture structure in "Any Other Class of Assets" category.
- Adding a new section (lines 94 through 100) to Asset Valuation Reserve – Equity Component for Investments with the Underlying Characteristics of Surplus Notes & Capital Notes.

Most of the interested parties' comments have been incorporated into this proposal but NAIC staff disagrees with the interested parties' recommendation to separate the non-registered private funds category from JV, Partnerships, or LLC category. Thus, this proposal continues to combine them.

Ref #2024-01BWG – Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (SAPWG 2023-23)

It proposes that adding residuals in the form of common or preferred stock should be reported in a delegated reporting line for residuals on Schedule BA regardless of the legal form.

Ref #2024-02BWG – Remove categories from Schedule DA, Part 1, and Schedule E, Part 2 that should be reported on Schedule BA. Add clarifying instructions on what should be included in Other Short-Term and Other Cash Equivalent categories (SAPWG 2024-09).

It proposes changes to Schedule DA Part 1, Schedule E Part 2, and Schedule BA to reflect guidance adopted by the SAPWG. Statement instructions are expanded to exclude asset-backed securities, mortgage loans, and BA assets including surplus notes, from being reported as short-term investments.

Ref #2024-03BWG – Update General Interrogatory 35 for private letter rating security reporting to clarify what should be included.

It proposes adding clarification language to the blank instructions on what should be reported in general interrogatory 35 for private letter rating (PLR) securities as there was inconsistent reporting for this interrogatory. Insurers are allowed to self-designate with PLGI suffix for PLR securities issued between 2018 and 2021, and subject to a confidentiality agreement that remains in force without providing the SVO with PLR rationale filing requirements. Otherwise, insurers are not allowed to self-designate the PLR securities with PLGI suffix but report them as NAIC 5.B GI. Insurers must acknowledge those PLGI or GI on general interrogatory 25. Charles Therriault, SVO Director, said PLR securities issued after 1/1/2022 must start to file rationale reports after 1/1/2024 and they are not allowed to self-designate regardless of the issue date.

Ref #2024-07BWG – Update the illustration under Note 5S(5) – Investments for Net Negative Interest Maintenance Reserve (IMR) to add a separate account breakout. Add a new general interrogatory for a company attestation for separate accounts.

The SAPWG adopted 2022-19 to allow the insurers to admit negative IMR balance up to 10% of total adjusted capital and surplus if their RBC ratio is over 300% of authorized control level and other criteria are met, on August 13, 2023. It proposes adding both note 5S(5) and a new general interrogatory 9 to reflect the accounting changes from this SAPWG adoption (INT 23-01).

Ref #2024-08BWG – Update the Interest Maintenance Reserve (IMR) and Asset Valuation Reserve (AVR) instructions for specific allocation guidance for NAIC Designation Changes for Debt Securities (excluding LBSS), Mortgage Loans, and perpetual preferred stocks (SAPWG 2023-15 & 2023-29)

The SAPWG adopted an agenda item 2023-15 on December 1, 2023, and 2023-29 on March 16, 2024, for IMR/AVR treatment on debt securities excluding LBSS, mortgage loans, and perpetual preferred stocks including mandatory convertible redeemable/perpetual preferred stocks.

It proposes blanks change to reflect those accounting guidance changes from these two agenda items – 2023-15 and 2023-29 with an effective date of December 31, 2024.

Ref #2024-09BWG – Add a note (5T) to the Notes to Financial Statements to be data captured to report the aggregate collateral loans by qualifying investment collateral (SAPWG 2023-28)

The SAPWG adopted a new disclosure requirement in SSAP No. 21R paragraph 5 on February 20, 2024, with an effective date of December 31, 2024, and sponsored this proposal to data capture the aggregate collateral loan by collateral type with admitted and non-admitted information.

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 March 16, 2024. The following updates pertain to investment accounting.

Exposed Items with Comment Deadline of April 17, 2024

Proposed P&P Manual Amendment to Update U.S. Government Agency and Other U.S. Government Obligation Abbreviations

It proposed eliminating conflicting abbreviations, e.g. VA for both the State of Virginia and U.S. Department for Veterans Affairs and changing the abbreviation of U.S. government agencies in SVO P&P Manual Part One paragraphs 78 and 79 to comply with field size

limitations in column "Agency, Sovereign Jurisdiction or State Abbreviation" on Schedule D Part 1 Sections 1 and 2.

Proposed P&P Manual Amendment to Update References to the SSAPs in Guidance for Subsidiary, Controlled, and Affiliated (SCA) and Related Party Bond or Preferred Stock Investments

It proposed both removing a reference to a specific paragraph of SSAP 43R guidance and adding a footnote, to SVO P&P Manual Part Three Paragraph 256 as the name of SSAP No. 43R will be changed from Loan-Backed and Structured Securities to Asset-Backed Securities on January 1, 2025 (SAPWG 2019-21).

Discussed Items

Revised Proposed Amendment to the SVO P&P Manual to Update the Definition of an NAIC Designation

As the definition of an NAIC Designation is in both Parts One and Two of the SVO P&P Manual, it proposed consolidating them into one. It was discussed at the NAIC 2023 Summer National Meeting, and SVO staff was directed to consider the feedback from the VOSTF members and interested parties.

The revised amendment removes the entire NAIC Designation definition guidance from Part Two as the definition of an NAIC designation is completely a policy. It includes a concise definition of an NAIC Designation which reflects any inconsistencies with the existing regulatory assumption that a fixed income instrument should have scheduled interest payments and full principal payment on a date certain, and loss given default and/or tail risk where appropriate in Part One and removes all reference for Subscript S from both Parts One and Two.

SVO staff said some insurer-owned bond transactions that were based on the value of fine art or had involved related parties raised a concern if the issuers would ever make payments to the insurers. The VOSTF is tasked to support regulators in assessing insurers' claims-paying ability. Some contractual terms, e.g., paid-in-kind interest, and other deferrals of interest are inconsistent with this regulatory objective. Regarding NAIC Designations not capturing risk already captured in the RBC factors, the VOSTF, and

other working groups including the Capital Adequacy Task Force have regular cross-group collaborations that will address any duplicative risk reporting or assessment. He said contractual terms that allow the issuer to have flexibility to not make payments that would be assumed the insurer takes on participatory risk which may not impact the NAIC Designation but could if the issuer utilized the terms. References to subscript S in the P&P manual will be removed through a separate technical clean-up amendment but the SVO will continue to share with regulators if they believe any securities possess other non-payment risk. Assigning NAIC Designation to an investment does not mean the investment is a bond under statutory accounting. The new identification requirement for PIK attributes by the SAPWG and Valuation Analysis Working Group "VAWG" highlights the importance of considering this type of potential risk to an insurer. He emphasized the NAIC is a consumer of ratings and is not itself a producer of ratings. NAIC Designations and other analytical products of the SVO and SSG are for use in the NAIC Financial Regulation Standards and Accreditation Program. The SVO may be renamed as Investment Analysis Office, and it is included in the E Committee's working agenda of "Framework for Regulation of Insurer Investments – A Holistic Review."

Revised Proposed Amendment to the SVO P&P Manual to Authorize the Procedures for the SVO's Discretion Over NAIC Designations Assigned Through the Filing Exemption Process

It was discussed at the NAIC Summer National Meeting and SVO staff was directed to consider the feedback from the VOSTF members and interested parties.

The revised amendment reflects the actionable comments received that align with the charges given to the VOSTF from the E-Committee. It proposes creating an SVO Senior Credit Committee (SCC) which comprises of an SVO Director and the SVO Managers, to place the security "under review" once it is determined if the SCC agrees with the SVO analyst's discovery on CRP rating that contains an unreasonable assessment of risk. Information requests will then be sent through VISION to insurers that hold security in their VISION portfolio and an SVO administrative symbol of "UR" will be assigned to

identify them in both VISION and AVS+ applications. SVO analysts will perform a full analysis of the security and coordinate with the insurers upon receipt of all necessary documentation or will contact the domicile if no responses toward the information request. Specific CRP rating(s) will be removed from the FE process and an SVO administrative symbol of "DC" will be assigned to the relevant security if SCC determines the FE NAIC Designation is three or more notches different than their opinion. SCC will present its analysis to a subgroup of the VOSTF to enable the VOSTF to have oversight over the rating removal process and allow them to provide feedback to the SVO. SCC's assessment will be entered into VISION until there is an alternative CRP rating(s) available. The SVO director will inform the Chair of the VOSTF and determine if an issue paper, referral, or amendment of the SVO P&P Manual is needed when they see repeated patterns. SVO will publish an anonymized summary of issues on VISION or another platform that insurers have access to. Insurers may appeal to the VOSTF Chair if they believe the SVO did not follow the procedures outlined in the SVO P&P manual. They may also appeal the SCC's analytical assessment by allowing the SVO to hire an independent third party at the insurers' expense to perform a blind review of the security with the information provided through the information request. SCC's opinion will remain if the independent third-party review results in an NAIC Designation Category that is more than one notch different from the FE-produced NAIC Designation Category; otherwise, the removed CRP rating will be reinstated. The SVO director will provide a summary of FE discretion actions taken for the preceding year at the following Spring National Meeting.

The main goal of this proposal is to grant the SVO discretion over the applicability of their credit rating provider ratings to determine an NAIC designation under the filing exempt (FE) process to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objective. Carrie Mears, the Chair of the VOSTF, said regulators think the proposed amendment is reasonable. CRP provides valuable service and there is no intention for the SVO to compete with them. However, it is not unconditional usage of CRP ratings either. It empowers the SVO to take necessary actions when they see unreasonable

ratings.

As this change requires enhancements to NAIC's VISION and AVS+ applications, it could take 1 to 2 years before it can be fully implemented. It proposes the effective date to be January 1, 2025, and subject to change.

Proposed Amendment to the P&P Manual to Add Practical Expedient to Determine the Issue Date for Private Letter Rating

Pursuant to SVO P&P Manual Part Three paragraph 12, insurers may continue to report securities with the SVO administrative symbol of PLGI with no time limits if both the PLR securities were issued between 2018 and 2021 and the confidentiality agreement that prevents insurers from sharing the rationale reports with the SVO, remains in force. For PLR securities that were issued after 2021, insurers might report securities with the SVO administrative symbol of PLGI until the end of the 2023 year-end if the confidentiality agreement that prevents insurers from sharing the rationale reports with the SVO remains in force. However, insurers will have to report securities with NAIC 5.B GI if they can't provide the SVO with a rationale report after 2023. As the SVO has been unable to independently source the issue date (aka legal closing date), which determines if the PLR rationale is required or not, it proposes adding practical expedient methodology to SVO P&P Manual Part Three paragraph 13 that allows the SVO to use the acquisition date as the issue date unless the insurers can prove that it shows an earlier issue date on the legal document.

The ACLI expressed concern that PL ratings would be deleted due to incorrect issue date information. The VOSTF directed staff to work with industry to develop an operational process to add the required information and report back to the Task Force.

Updates on the Proposed Collateralized Loan Obligation (CLO) Modeling Methodology and Ad-hoc Working Group

Eric Kolchinsky, the Structured Securities Group Director, said his team has been working diligently on the methodologies. He received some excellent feedback and has been working with the C-1 working group from the American Academy of Actuaries. He

is currently exploring options to push the effective date from 1/1/2024 to 12/31/2025 and hopes to get this approved at the summer national meeting. The postponed date will allow his team to better align with other workstreams and the Academy's work. He hopes to have the next ad hoc meeting in a few weeks.

NAIC Capital Adequacy Task Force

The Capital Adequacy Task Force of the NAIC held a national meeting on March 17, 2024. The following updates pertain to investment accounting.

Exposed Item with a comment deadline of April 16

Residual Structure P&C & Health (2024-02-CA)

It was exposed on January 31, 2024. It proposes adding a new line and updating the instructions for residual tranches on RBC reports – PR008 and XR008 for P&C and Health insurers.

It was re-exposed with the recommended RBC factor of 45% which was suggested by several CADTF's members to be in line with the Life RBC factor for consistency purpose.

Repurchase Agreement P&C & Health (2024-06-CA)

It was exposed on January 31, 2024. It proposes mirroring the Life RBC's proposal 2024-03-L (RBC factor reduction to 0.2% for repurchase programs that meet conforming program criteria through the general interrogatories) to P&C and Health RBC report – Off-Balance Sheet Items and Other Items (PR014 & XR005). Repo programs that do not meet the criteria would continue to receive the current RBC charge of 1%.

Editorial change for column 12 Affiliated Investments (2024-08-CA)

It proposes removing the reference of "H0 Component" and "R0 Component" from Column 12 on RBC report XR002 and PR003 respectively as only affiliate types 1-2 flow into H0 and R0 while affiliate types 3-9 flow into H1 and R2.

Exposed Item with a comment deadline of May 1

Collateral Loan Memorandum for Referral sent from the SAPWG regarding Collateral Loan Reporting Changes

The SAPWG exposed agenda item 2023-28 at the 2023 Fall National Meeting about expanding reporting lines for collateral loans on Schedule BA to quickly identify the collateral type in support of admittance of collateral loans under SSAP No. 21R. The SAPWG asked the CADTF to provide input on any changes needed to the reporting structure and instruction for Asset Valuation Reserve (AVR) and/or Risk Based Capital (RBC) schedules and RBC factors for the proposed reporting lines based on underlying collateral. NAIC staff identified that some companies are reporting collateral loans as non-registered private equity funds and obtain lower RBC charges based on the underlying collateral. They expect further discussion on how those new reporting lines should be mapped to AVR for life insurers.

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 national meeting on March 17, 2024. The following updates pertain to investment accounting.

Updates from the American Academy of Actuaries on the Principles for developing RBC factors for CLOs and other structured securities

Steve Smith from the American Academy of Actuaries (Academy) proposed further research he is going to do, e.g. identify comparable attributes for CLOs' tail risk, review of five credit rating agencies' rating methodologies (Moody's, S&P, Fitch, DBRS, KBRA) on tail risk, historical default rate, and loss experience data, and review of Oliver Wyman residual tranche study. His goal is to present his findings at the summer national meeting and finalize the research by the fall national meeting.

He said the Academy had agreed to review and provide the regulators with their inputs on any serious study done on appropriate RBC factors for residual tranches.

Alternative Credit Council, an interested party, proposed a delay in increasing RBC factors for residual tranches from 30% to 45% this year as the finding from their consultant – common stock losses are 30–50% higher than ABS residuals in the “mid-tail” and “deep-tail” stress scenarios which calibrated to Value at Risk (VaR) 95% and 99% respectively. This analysis of the relative risk of ABS residual tranches focuses on five prevalent asset classes that represent more than 60% of ABS total outstanding volume, e.g. middle market CLOs, broadly syndicated loan CLOs, prime auto loan ABS, subprime auto loan ABS and private student loan ABS.

Philip Barlow, the Chair of the RBCIREWG, said the Oliver Wyman Residual Tranche Report justifies the current interim RBC charge of 45%. To adopt a different RBC charge that is higher or lower than 45%, the proposal must be exposed by the end of April 2024 and adopted by the end of June 2024.

It exposes Oliver Wyman Residual Tranche Report for 21 days with a comment deadline of April 8, 2024. RBCIREWG will meet on April 12, 2024, to discuss this report.

Review of RBC Factors for Registered and Diversified Funds

After meeting with multiple workstreams, e.g. CADTF, RBCWG, VOSTF, and SAPWG on March 1, 2024, NAIC staff was directed to review and propose changes to the RBC factors for NAIC Fixed Income-Like SEC Registered Fund on Schedule D Part 2 Section 2 to align with the bond factors for SVO-Identified Bond ETFs on Schedule D Part 1 and Non-Registered Private Funds with Underlying Assets Having Characteristics of Bonds or Preferred Stock on Schedule BA. NAIC Fixed Income-Like SEC Registered Funds are filed with the SVO for NAIC Designation which currently has zero RBC benefit. Both SVO-Identified Bond ETF and Non-Registered Private Funds have bond factors in accordance with the SVO-Assigned Designation.

Review of RBC Instructions for Asset Concentration

Staff is also directed to review and propose changes to the Asset Concentration Factor on LR010, PR011, and XR012 to align with the different treatment between diversified versus non-diversified funds in the blanks instruction – Supplementary Investment Risks Interrogatories (SIRI). Under SIRI instructions, diversified funds including some funds that make it to these three SVO-Identified Fund Lists – US Government Money Market Fund, Bond ETFs, NAIC Fixed Income-Like SEC Registered Fund, do not need to be individually assessed and aggregated to determine the ten largest equity interests. However, non-diversified funds are required to identify equity interests within the fund and aggregate those interests with direct equity investments to determine the ten largest equity interests. Current RBC instruction – Asset Concentration Factor LR010, PR011, XR012 do not have different instructions for diversified and non-diversified funds but both P&C (PR011) and Health (XR012) include look-through requirements, e.g. the pro rata share of individual securities within a mutual fund or common trust fund are to be included in the determination of concentrated investments. Current RBC instruction – Life Common Stock Concentration Factor LR011 excludes mutual funds and common trust funds that are diversified but there is no mention of look-through requirement for non-diversified funds.

Life-Risk Based Capital Working Group

The Life-Risk Based Capital Working Group of the NAIC held a virtual meeting on January 25, 2024, and a national meeting on March 17, 2024. The following updates pertain to investment accounting.

Expose Item with a comment deadline of April 15

2024-03-L Reduce RBC factor from 1.26% to 0.2% for Conforming Repurchase Agreement (Repo)

ACLI proposed this item to mirror what was done for securities lending almost twenty years ago and reduce the RBC factor for conforming repurchase agreement (Repo) from 1.26% to 0.2% if the repo met the conforming criteria. To meet the conforming criteria, insurers will have to first establish a conforming program and have clear operation guidelines within the industry standard

and exchange regularly. The counterparty must have a BBB rating or better or it disqualifies the repo from conforming program. Collateral must be highly liquidated to be acceptable.

The referral was sent to the SAPWG for comments on this ACLI's proposal. Dale Bruggeman, the Chair of the SAPWG, said the current statutory accounting and reporting treatments for securities lending and repo are different. He asked the LRBCWG to defer consideration of the proposal as it will take the SAPWG some time to assess the differences and consider converging revisions if deemed necessary. Collaterals received for securities lending are reported in Schedule DL. Insurers are allowed to sell or repledge for the collateral received that they haven't reinvested for securities lending. However, there are no schedules for collaterals received for repo. As the ACLI identifies the repo and securities lending transactions as similar structures of short-term collateralized funding for life insurers, it may be appropriate to create consistent reporting of the collaterals received regardless of the legal form of the agreement to allow the regulators to receive comparable information. He suggested creating a new general interrogatory to capture collateral from conforming repo programs and adding the securities lending conforming program to the annual statement general interrogatories instructions (GI 25.04 & 25.05) as they are currently captured in the RBC instructions – LR017 (1) & (2) only. It has been identified that very few insurers report any securities lending collateral as part of a nonconforming program even though the collateral is outside the parameters of acceptable collateral. It is typical to assess the collateral received from the counterparty but not the assets from the reinvestment of the original collateral received.

Other Items

2024-07-L Restructure LR008 – Other Long-term Assets

It was exposed via e-vote on January 31, 2024, with comment deadline of February 26, 2024. It proposed moving BA Affiliated Common Stock and Residual Tranches within Schedule BA, to be consistent with risk component and reinsurance treatment.

2024-05-L New Line for LR009 – Schedule BA Mortgage

It was exposed on January 25, 2024, with comment deadline of February 26, 2024. It proposes adding new line 2 to LR009, to address line 44 of the Asset Valuation Reserve (AVR) Equity Component as it was missed when the LRBCWG made the commercial mortgage methodology changes in 2013. The Chair asked the industry to suggest an appropriate RBC factor for this line. The proposed effective date is December 31, 2024.

Collateral Loan Reporting

Dale Bruggman, the Chair of the SAPWG, said the SAPWG adopted a new disclosure to detail the collateral loans admitted and non-admitted by collateral type for year-end 2024 and expand collateral loan disclosures and Schedule BA reporting lines based on the collateral type (SAPWG 2023-28). Collateral loans do not currently flow through AVR. This decision was made based on a 1990 intercompany survey where it was identified that collateral loans were very small risks and a small proportion of total portfolio value. Collateral loans were moved from Schedule C to Schedule BA but a change to flow through AVR was not incorporated. Based on the 2022 data, collateral loans make up a significant portion of assets at some companies. The SAPWG adoption of a new 2024 disclosure and reporting clarifications will provide information on the underlying collateral that backs loans. That underlying information may help the LRBCWG to complete a more detailed analysis for RBC purposes. The SAPWG will share the industry's comment on how collateral loans backed by certain collateral types should flow differently through AVR for RBC impact with the LRBCWG.

Some insurers are reporting certain collateral loans, e.g. warehouse loans with mortgage loan collateral as non-registered private funds with underlying characteristics of mortgage loans on Schedule BA. The current RBC factor for collateral loans is 6.8% for Life insurers regardless of any collateral type. To remove reporting inconsistencies, the SAPWG sponsored blanks changes (2023-12 BWG) to eliminate the non-registered private fund and clarify those private funds should be reported in the "joint venture, partnerships or limited liability companies" reporting category as they are within the scope of SSAP No. 48 and investments should be reported as an "Any Other Asset" if no appropriate

dedicated reporting line is available.

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